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IAS 39 V/s IFRS 9: AN OVERVIEW

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ABSTRACT

In IAS 39 *Financial Instruments:* **Recognition** *and Measurement* has been criticised as complex, difficult to understand, apply and interpret. To address these observations, and in response to the global financial crisis of 2008/2009, so that's why the International Accounting Standards Board (IASB) decided to rewrite and replace IAS 39. The new standard got the name *IFRS* ***9 Financial Instruments.***

This research paper attempts to study there is no wide difference between IFRS 9 and IAS 39. This paper also focuses on the classification and measurement of FINANCIAL INSTRUMENTS. In last few years have seen wide changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS all over the world. IFRS (International Financial Reporting Standard) convergence, in present eras, has gained momentum worldwide. The application of IFRS not only standardize the accounting treatments but also helpful in producing true and fair financial statements and reporting. Many countries in the world using IFRS can easily make comparisons of their financial statements across the industries and countries. These are highly reliable standards for the allocation of resources and for keeping the accounting records for its fair results. The IFRS adoption is an issue of global relevance among the all over the world because of its uniformity, reliability and comparability of financial statements of companies. India being one of the key global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. IFRS is expected to lower the cost of raising the funds, reduce accountant fees and enable faster access to all major capital markets it also facilitate companies to set targets and milestones based on a global business environment.

Introduction:

All around the world decided to speak the same accounting language and present the same accounting format which has resulted in uniform accounting standard across the world – International Financial Reporting Standard. So **International Financial Reporting Standards** (**IFRS**) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. Over 100 countries across the globe had already implemented IFRS instead of their National Standard. India has not yet mandated the adoption of IFRS in to, but is in the process of harmonizing its Indian accounting standard with IFRS.

In November 2013, the International Accounting Standards Board (IASB) published IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). Most changes relate to new hedge accounting requirements, with others deferring the effective date of

IFRS 9.The new hedge accounting requirements have been developed from the proposals in Exposure Draft ED 2010/13 *Hedge Accounting*, which was issued in December 2010 as part of the third phase of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The existing 2015 effective date of IFRS 9 has been deleted, and the IASB has left the effective date open until all the other outstanding phases of IFRS 9 have been finalised. However, the new hedging requirements in IFRS 9 are available for early adoption (provided the classification and measurement requirements in IFRS 9 are also adopted at the same time).The new hedge accounting requirements are more principles based, less complex, and provide better links to entities' risk management activities than the existing hedge accounting model in IAS 39. The new model would allow entities to apply hedge accounting more broadly to manage profit or loss mismatches and improve what might be regarded as being 'artificial' hedge ineffectiveness.

- **What is IFRS/IAS?**

  A single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions".

  International Financial Reporting Standards (IFRS) are principal-based standards, interpretations and the framework adopted by the International Accounting Standards Board (IASB). IFRS implementation affects several areas of entity – presentation of accounts, accounting policies and procedures, drafting of legal documents, approach to assets and their usage, and communication with stakeholders.

  IFRS is the accounting benchmark developed by the IASB.

- **HISTORICAL BACKGROUND:**

  The origin of IFRs can be traced back to the early 1970s, when the International Accounting Standards Committee developed a single set of international standards. These well-publicized amendments to International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement. have gained acceptance and traction in all major regions of the world. Since 2005, the FASB and the International Accounting Standards Board (IASB) have been working together to improve and simplify reporting for financial instruments. The main objective, then and now, has been to provide financial statement users with a more timely and representative depiction of a company, institution, or non-public not-for-profit organization's involvement in financial instruments, while reducing the complexity in accounting for those instruments.

- **IFRS IN INDIA:**

  At present, Accounting Standards Board (ASB) formulates and issues accounting standards in India which are more or less in line with IFRS except for a few instances where departure is necessary to comply with the legal, regulatory and economic environment. Council of the Institute of Chartered Accountants of India (ICAI) opined in May 2006 that adopting IFRS was considered and supported by the ASB. IFRS task force was set up to provide a road map for convergence and it decided to converge with IFRS from the accounting period commencing on or after 1 April 2011. In India, Ministry of Corporate Affairs carried out the process of convergence of Indian Accounting Standards with IFRS after a wide range of consultative process with all the stakeholders in pursuance of G-20 commitment and as result thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND

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Oct. 2020, Year - 7 (90)
Paper ID : RRJ201777

AS).Various categories of companies are required to carry out the convergence of Indian Accounting Standards with IFRS with effect from 1 April 2011.

- **IFRS is expected to affect the following public entities in India:**
- Listed companies
- Banks, insurance companies, mutual funds, financial institutions
- Companies with a turnover of more than INR 1 billion in the preceding year
- Companies with borrowings exceeding INR 250 million in the preceding year
- Companies that are holdings or subsidiaries of the above

IFRS compliance for Indian public entities is applicable from April, 2011.

- **<u>Objective of IFRS</u>**

Principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Definitions: FINANCIAL INSTRUMENT

- Warrants or written call options (that allow the holder to subscribe for – or purchase – a fixed number of non puttable ordinary shares in exchange for a fixed amount of cash or another financial asset)

<u>The definition of an equity instruments is brief and succinct, but the definitions of "Financial Asset" and "Financial Liability" are more complex.</u>

<u>Financial Instruments Definitions and Examples Summary:</u>

(1) Financial Asset:

Any asset that is;

- Cash;
- An equity instrument of another entity;
- A contractual right to receive or another financial asset from another entity, or to exchange assets or financial liabilities with another entity under conditions that are potentially favourable to the entity or
- A contract that may or will be settled in the entity's own equity instruments and is not classified as an equity instrument of the entity (discussed below):

<u>Examples of assets</u>

- Cash, above
- Investment in shares or other equity instrument issued by other entities,
- Receivables,
- Loans to other entities,
- Investments in bonds and other debt instruments issued by other entities,
- Derivative financial assets
- Some derivatives on own equity

(2) <u>Financial Liability:</u>

Any liability that is:

- A contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

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- A contract that will or may be settled in the entity's own equity instruments and is not classified as an equity instrument of the entity (discussed below):

Examples of liabilities

- Payables (e.g. trade payables), see above
- Loans from other entities,
- Issued bonds and other debt instruments issued by the entity,
- Derivative financial liabilities,
- Obligations to deliver own shares worth a fixed amount of cash,
- Some derivatives on own equity,

EXISTING GUIDANCE AND THE RATIONALE FOR CHANGE

The IASB's project to replace IAS 39

In IAS 39 *Financial Instruments: Recognition and Measurement* has been criticized as complex, difficult to understand, apply and interpret.

To address these observations, and in response to the global financial crisis of 2008/2009, so that's why the International Accounting Standards Board (IASB) decided to rewrite and replace IAS 39. The new standard got the name *IFRS **9 Financial Instruments.***

However, it is not very easy to replace such a complicated standard. Therefore, replacement process evolves 3 main phases::

- Phase I: Classification and measurement
- Phase II: Impairment of financial assets
- Phase III: Hedge accounting.

Currently, IFRS 9 has been fully complete,

Project Status:

Phase 1: Classification and Measurement:

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an on-going basis. Financial assets were dealt with as part of this first phase, with IFRS 9 being issued in November 2009. This was supplemented in October 2010 by accounting requirements for financial liabilities. In November 2012, the IASB decided to reconsider limited aspects of accounting for financial assets and issued Exposure Draft ED 2012/4 *Limited Improvements to IFRS 9*. For more IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments removing a source of complexity associated with previous accounting requirements.

Phase 2: Impairment:

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9 the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the

new impairment requirements. The IASB is currently developing an impairment model to replace the 'incurred loss' model in IAS 39. In March 2013, the IASB released an ED proposing a three-stage credit deterioration model for impairment. At the date of this publication, the IASB is in the process of red liberating the comments received from the March 2013 exposure draft.

Phase 3: Hedge Accounting:
IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

The IASB decided to split the hedge accounting phase into two separate work streams due to the complexity of the topic:

- General hedge accounting – for one-to-one or 'static' hedge relationships, and
- Macro hedge accounting model – for dynamic hedging relationships of portfolios of financial assets and financial liabilities; where the hedged position changes constantly.

The current status of IAS **39 vs.** IFRS **9**
In fact, Phase 1 on Classification and measurement has been completed. Requirements for classification and measurement of financial assets were rewritten and issued in new IFRS 9 in November 2009. Financial liabilities followed in October 2010 and hedge accounting in November 2013.
In July 2014, IASB issued final requirements related to impairment of financial assets, own credit and amendments to hedge accounting. This means IFRS 9 is fully completed.

- **What distinguishes debt from equity?**
  Distinguishing between financial liabilities (debt) and equity in respect of instruments that an entity issues, for example where it issues share capital, can be a particular challenge. For instance, there are many instruments with contractual obligations to pay cash under circumstances which are contingent on future events. These typically meet the definition of a financial liability and pose considerable challenges.

- **How are financial instruments measured?**
  Initial measurement of financial instruments
  All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. [IFRS 9, paragraph 5.1.1]

Subsequent measurement of financial assets
IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortized cost and those measured at fair value.
Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (fair value through profit or loss, FVTPL), or recognized in other comprehensive income (fair value through other comprehensive income, FVTOCI).

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For debt instruments the FVTOCI classification is mandatory for certain assets unless the fair value option is elected. Whilst for equity investments, the FVTOCI classification is an election. Furthermore, the requirements for reclassifying gains or losses recognized in other comprehensive income are different for debt instruments and equity investments.

The classification of a financial asset is made at the time it is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. [IFRS 9, paragraph 4.1.1] If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

- ***Debt instruments***

A debt instrument that meets the following two conditions must be measured at amortized cost (net of any write down for impairment) unless the asset is designated at FVTPL under the fair value option (see below): [IFRS 9, paragraph 4.1.2]

- **Business model test:** The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).
- **Cash flow characteristics test:** The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument that meets the following two conditions must be measured at FVTOCI unless the asset is designated at FVTPL under the fair value option (see below):
[IFRS 9, paragraph 4.1.2A]

- **Business model test:** The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- **Cash flow characteristics test:** The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other debt instruments must be measured at fair value through profit or loss (FVTPL). [IFRS 9, paragraph 4.1.4]

Fair value option

Even if an instrument meets the two requirements to be measured at amortized cost or FVTOCI, IFRS 9 contains an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. [IFRS 9, paragraph 4.1.5]

Equity instruments

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income'. There is no 'cost exception' for unquoted equities.

'Other comprehensive income' option

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at FVTOCI with only dividend income recognized in profit or loss. [IFRS 9, paragraph 5.7.5]

Measurement guidance

Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

Subsequent measurement of financial liabilities

IFRS 9 doesn't change the basic accounting model for financial liabilities under IAS 39. Two measurement categories continue to exist: FVTPL and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. [IFRS 9, paragraph 4.2.1]

Fair value option

IFRS 9 contains an option to designate a financial liability as measured at FVTPL if [IFRS 9, paragraph 4.2.2]:

- doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or
- the liability is part or a group of financial liabilities or financial assets and financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

A financial liability which does not meet any of these criteria may still be designated as measured at FVTPL when it contains one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not clearly closely related. [IFRS 9, paragraph 4.3.5]

IFRS 9 requires gains and losses on financial liabilities designated as at FVTPL to be split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount presented in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed. [IFRS 9, paragraphs 5.7.7-5.7.8]

Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss, the entity may only transfer the cumulative gain or loss within equity.

Derecognition of financial assets

The basic premise for the derecognition model in IFRS 9 (carried over from IAS 39) is to determine whether the asset under consideration for derecognition is: [IFRS 9, paragraph 3.2.2]

- an asset in its entirety or
- specifically identified cash flows from an asset (or a group of similar financial assets) or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets). or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets)

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the entity has transferred the contractual rights to receive the cash flows, or the entity has retained the contractual rights to receive the cash flows from the

asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions: [IFRS 9, paragraphs 3.2.4-3.2.5]

- the entity has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the entity is prohibited from selling or pledging the original asset (other than as security to the eventual recipient),
- the entity has an obligation to remit those cash flows without material delay

Once an entity has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded. [IFRS 9, paragraphs 3.2.6(a)-(b)]

If the entity has neither retained nor transferred substantially all of the risks and rewards of the asset, then the entity must assess whether it has relinquished control of the asset or not. If the entity does not control the asset then derecognition is appropriate; however if the entity has retained control of the asset, then the entity continues to recognize the asset to the extent to which it has a continuing involvement in the asset. [IFRS 9, paragraph 3.2.6(c)]

These various derecognition steps are summarized in the decision tree in paragraph B3.2.1.

Derecognition of financial liabilities

A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. [IFRS 9, paragraph 3.3.1] Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss. [IFRS 9, paragraphs 3.3.2-3.3.3]

Derivatives

All derivatives in scope of IFRS 9, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognized in profit or loss unless the entity has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument. [IFRS 9, paragraph 4.3.1]

The embedded derivative concept that existed in IAS 39 has been included in IFRS 9 to apply only to hosts that are not financial assets within the scope of the Standard. Consequently, embedded derivatives that under IAS 39 would have been separately accounted for at FVTPL because they were not closely related to the host financial asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at FVTPL if the contractual cash flow characteristics test is not passed (see above).

The embedded derivative guidance that existed in IAS 39 is included in IFRS 9 to help preparers identify when an embedded derivative is closely related to a financial liability host contract or a host contract not within the scope of the Standard (e.g. leasing contracts, insurance contracts, contracts for the purchase or sale of a non-financial items).

Reclassification

For financial assets, reclassification is required between FVTPL, FVTOCI and amortized cost, if and only if the entity's business model objective for its financial assets changes so its previous model assessment would no longer apply. [IFRS 9, paragraph 4.4.1]

If reclassification is appropriate, it must be done prospectively from the reclassification date which is defined as the first day of the first reporting period following the change in business model. An entity does not restate any previously recognized gains, losses, or interest.

IFRS 9 does not allow reclassification:

- For equity investments measured at FVTOCI, or
- Where the fair value option has been exercised in any circumstance for a financial assets or financial liability.

Expected credit losses:

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in IAS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis. In practice, the new rules mean that entities will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables).

IFRS 9 contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Effective date and transition:

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 9 is to be applied retrospectively but comparatives are not required to be restated. If an entity elects to early apply IFRS 9 it must apply all of the requirements at the same time. Entities applying the standard before February 1, 2015 continue to have the option to apply the standard in phases. However, IFRS 9 is still subject to the endorsement process in Europe.

IFRS 9 Financial Instruments introduces a new classification and measurement regime for financial assets within its scope. As a result of ongoing discussions about measurement of own credit risk when fair valuing financial liabilities, accounting for financial liabilities will continue to be performed under IAS 39 until further amendments are made by the IASB to IFRS 9.

In summary, IFRS 9 proposes that:

Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortized cost (the use of fair value is optional in some limited circumstances)

- investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognized in profit or loss
- all other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss
- the concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.
- Unquoted equity instruments can no longer be measured at cost less impairment (must be at fair value). On 12 November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 Financial Instruments.

➢ **What are the differences between IAS -39 & IFRS -9:**

Parameter	**IAS 39**	**IFRS 9**
Name	Financial Instruments: Recognition and Measurement	Financial Instruments
Applicability	Currently effective	Effective from 1st Jan 2013 with early adoption permitted IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.
Scope	All aspects of Financial assets & Financial Liabilities including hedge accounting	Only Financial assets included. Presently the standard does not include Financial liabilities, derecognition of; financial instruments, impairment and hedge accounting
Classification of debt instruments	Fair Value Through Profit & Loss (FVPL) Available-for-sale (AFS) Held-to-maturity (HTM) Loan and Receivable (LAR)	Fair Value Through Profit & Loss (FVPL) Amortized Cost (AC)
Classification of equity instruments	Fair Value Through Profit & Loss (FVPL) Available-for-sale (AFS)	Fair Value Through Profit & Loss (FVPL) Fair Value Through Other Comprehensive Income (FVOCI)
Basis of classification	Intention to hold till maturity, trading for short term profits, derivative, loan or receivable, or intentional designation subject to certain restrictions	Classification based on business model and the contractual cash flow characteristics
Measurement - Debt Instruments	Measured at amortized cost if classified as held-to-maturity or as loan or receivable. Other classifications are measured at fair value.	Measured at amortized cost (AC) if business model objective is to collect the contractual cash flows and the contractual cash flows represent solely payment of principal and interest on the principal amount outstanding. Debt instruments meeting the above criteria can still be measured at fair value through profit or loss (FVPL) if such designation would eliminate or reduce accounting mismatch. If not, measured at fair value through profit or loss (FVPL)
Measurement - Equity Instruments	Measured at fair value. *Exception:* Unquoted equity investments are measured at cost where fair valuation is not	Measured at fair value through profit or loss. An entity can irrevocably designate at initial recognition as fair value through other comprehensive income, provided the

	sufficiently reliable.	equity investment is not held for trading.
Embedded derivatives	Embedded derivatives are separated from the hybrid contract and are measured at FVPL.	No bifurcation of asset. The financial asset is assessed in its entirety as to the contractual cash flows and if any of its cash flows do not represent either payments of principal or interest then the whole asset is measured at FVPL.
Fair value option	An entity can designate a financial asset to be measured at fair value on initial recognition. The entity has the freedom to do so and need not satisfy any other criteria	A financial asset can be designated as FVPL on initial recognition ***only*** if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.
Reclassifications - Debt instruments	Reclassification between the various four categories allowed under specific circumstances with the gain/loss being treated differently depending upon the movement between the classifications. Reclassification from held-to-maturity (HTM) is viewed seriously if does not fall within the permitted exceptions.	If entity's business model objective changes, reclassification is permitted between FVPL and AC or vice versa. Such changes should be demonstrable to external parties and are expected to be very infrequent.
Reclassifications - Equity instruments	Reclassification is permitted between the FVPL and AFS. When transferred from AFS to FVPL, unrealized gain/loss is recognized in P&L based on fair value. When transferred from FVPL to AFS, no reversal of gain/loss recognized as unrealized is permitted. However all gain/loss on disposal of AFS are recognized in P&L by transfer from equity.	Reclassification between FVPL and FVOCI not permitted as FVOCI classification is done at the irrevocable designation of the entity as such. Only dividend income is recognized in P&L of assets designated as FVOCI. Even on disposal of such assets, the gain/loss is not transferred from equity, but remains permanently in equity.

The above table provides the Salient differences between IAS 39 and IFRS 9 and the table below provides a high-level summary of some of the key changes introduced by IFRS 9:

Type of instrument	IAS 39	IFRS 9 impact
Investments in equity instruments	Often classified as 'available for sale' with gains and some losses deferred in other comprehensive income. Impairment losses recognized in profit or loss.	Measured at fair value with gains/losses recognized in profit or loss, unless designated at fair value through other comprehensive income in which case only dividends recognized in profit or loss

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Available for sale debt instruments	Recognized at fair value with gains/losses deferred in other comprehensive income. Impairment losses and reversals recognized in profit and loss	May be measured on amortized cost basis if the 'business model' and 'cash flow characteristics' tests are met, otherwise measured at fair value through profit or loss
Convertible instruments	Embedded conversion option bifurcated and separately recognized at fair value, underlying debt instrument may be measured at amortized cost	Entire instrument must be classified and measured. Results in measurement at fair value with gains/losses in the profit or loss
Other hybrid debt instruments	Embedded derivatives bifurcated and separately recognized at fair value, underlying debt instrument may be measured at amortized cost	Entire instrument must be classified and measured, will generally result in measurement at fair value with gains/losses in the profit or loss
Other financial hosts with embedded derivatives	Bifurcation from underlying instrument in many cases, separately accounted for at fair value with gains/losses in profit or loss	No bifurcation, entire instrument classified and measured. Will often result in entire instrument being measured at fair value through profit or loss
Non-financial hosts	Bifurcation from underlying instrument in many cases, separately accounted for at fair value with gains/losses in profit or loss	No change. Embedded derivatives must still be bifurcated
Listed debt securities	Measured at fair value (unless included in the held-to-maturity category)	Measured at amortized cost if 'business model' and 'cash flow characteristics' tests are satisfied otherwise measured at fair value through profit or loss
Held-to-maturity investments	Measured at amortized cost with a 'tainting' test	Must meet 'business model' and 'cash flow characteristics' tests to be measured at amortized cost, otherwise generally fair value through profit or loss
Limited recourse receivables	May be measured at amortized cost	'Look through' assessment may result in fair value measurement in some cases
Securitisation receivables	May be measured at amortized cost	'Look through' assessment may result in fair value measurement
Non-financial hosts	Bifurcation from underlying instrument in many cases, separately accounted for at fair value with gains/losses in profit or loss	No change. Embedded derivatives must still be bifurcated
Listed debt securities	Measured at fair value (unless included in the held-to-maturity category)	Measured at amortized cost if 'business model' and 'cash flow characteristics' tests are satisfied otherwise measured at fair value through profit or loss
Held-to-maturity investments	Measured at amortized cost with a 'tainting' test	Must meet 'business model' and 'cash flow characteristics' tests to be measured at amortized cost, otherwise generally fair value through profit or loss

Limited recourse receivables	May be measured at amortized cost	'Look through' assessment may result in fair value measurement in some cases
Securitisation receivables	May be measured at amortized cost	'Look through' assessment may result in fair value measurement
Non-financial hosts	Bifurcation from underlying instrument in many cases, separately accounted for at fair value with gains/losses in profit or loss	No change. Embedded derivatives must still be bifurcated

Conclusion:

IFRS have become an essential requirement for accounting profession in the emerging business scenario and the need for convergence with IFRS has arisen as different accounting standards are followed by different countries. The decision by ICAI to converge with IFRS is a milestone decision and is likely to provide significant benefits to Indian corporates. From the comparative analysis of IFRS-9 and Indian Accounting Standards -39 issued by ICA, considerable differences between IFRS -9 and IAS -39 are observed. But it does not mean that we can afford to stay away from the significant accounting changes that are happening in the world. The Council of the Institute of Chartered Accountants of India has decided to fully converge with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board from the accounting periods commencing on or after1st April, 2011. Though the conversion process is not simple, the success behind this implementation is because of extensive usage of change and efficient risk management process. Thus, the corporate that reacts effectively and quickly to new developments will enjoy the fruits of such changes with respect to quality, clarity, transparency and credibility of this new global reporting language. The main benefit of convergence is that the businessmen can present their accounts in the same way as that of other countries. This will lead to a more healthy international competition by making cooperation easy.

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