

Amendments to HKFRS 9 Modification of Financial Liabilities

Introduction

Both HKAS 39 “Financial Instruments: Recognition and Measurement” and HKFRS 9 “Financial Instruments” do not provide specific guidance for modification or exchange of a financial liability measured at amortised cost that does not result in derecognition (i.e. when the present value of the cash flows under the new terms discounted using the original effective interest rate is less than 10 per cent different from the present value of the remaining cash flows of the original financial liability). For such modification or exchange of a financial liability, the current common practice is to amortise the difference over the remaining term of the financial liability resulting in a change of the effective interest rate. This method was included in the IAS 39 Implementation Guidance (July 2001) but is not carried forward to the current version of IAS or HKAS 39.



Summary of Amendments

The Amendments add two paragraphs to the Basis for Conclusions of HKFRS 9 to clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. An entity is required to recalculate the amortised cost of the modified financial liability by discounting the modified cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability is recognised in profit or loss at the date of the modification or exchange.



HKFRS 9 requires retrospective application. The Amendments may constitute a change in practice for some entities. Therefore, if entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the Amendments retrospectively on transition to HKFRS 9.

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