

Appendix 2 IFRS 9 – Financial Instruments

Accounting Policy

Financial assets

~~Financial assets are held under the following three classifications:_____~~

~~– loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market_____~~

~~– available-for-sale financial assets – assets that have a quoted market price_____~~

~~– unquoted equity investments held at cost because it is impracticable to determine fair value_____~~

Loans and Receivables_____

~~Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement._____~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement._____~~

Available-for-Sale Financial Assets_____

~~Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council._____~~

~~The inputs to the measurement techniques are categorised in accordance with the following three levels:_____~~

- ~~– Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date _____~~
- ~~– Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly _____~~
- ~~– Level 3 inputs – unobservable inputs for the asset. _____~~

~~Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve. _____~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation). _____~~

~~Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. _____~~

~~Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). _____~~

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at: _____

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take a form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains or losses that arise from on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost and fair value through other comprehensive income, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligation. Credit risk plays a crucial factor in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - market price.
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Any gains or losses that arise from on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at fair value. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Fair value gains or losses are recognised and posted to Other Comprehensive Income and Expenditure and held in the Financial Instruments Revaluation Reserve until written out of derecognition or maturity. Fair value measurements and techniques are set out in the accounting policy on page xx and referred to in Financial Assets Measured at Fair Value through Profit and Loss.

Movements in impairment loss allowances are debited/credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with the compensating credit/debit against Other Comprehensive Income and Expenditure to offset movements against gains/losses on fair value.

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

Investments in Equity Instruments designated to Fair Value through Other Comprehensive Income

Investments in Equity Instruments designated to fair value through other comprehensive income because they are neither held for trading nor contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies. They are not considered puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

The investments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at fair value. Dividend income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value gains or losses are recognised and posted to Other Comprehensive Income and Expenditure and held in the Financial Instruments Revaluation Reserve until written out of derecognition or maturity. Fair value measurements and techniques are set out in the accounting policy on page xx and referred to in Financial Assets Measured at Fair Value through Profit and Loss.

Cumulative gains/losses on fair value are transferred to the General Fund Balance on derecognition.