ACCOUNTING FOR LISTED BONDS UNDER IFRS 9

Why "listed" does not determine the accounting

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A common misconception is that if a bond is traded on an exchange, it must be valued at fair value through profit or loss (FVTPL). However, IFRS 9 does not support this conclusion.

Listed bonds are common investments held by universities, investment entities, public entities, and corporates. The accounting for a listed bond is determined using the *same principles* that apply to any other debt instrument, namely:

1. Do the contractual cash flows meet the *SPPI test*?
2. What is the entity's *business model for managing* the asset?

The listing of a bond indicates that it can be traded in an active market, but it does not dictate its classification or measurement.

IFRS 9 Classification

Step 1: Assess the SPPI Test

A debt instrument meets the **SPPI test** when its contractual cash flows represent solely payments of principal and interest on the outstanding principal amount, consistent with a basic lending arrangement.

Typical listed bonds often satisfy the SPPI test because they provide:

- repayment of principal at maturity; and
- periodic interest payments.

However, a debt instrument will fail the SPPI test if it contains contractual features that introduce exposure to risks or volatility unrelated to a basic lending arrangement, such as:

- equity-linked returns;
- commodity-linked returns;
- leveraged returns;
- inverse floating rates; or
- other features inconsistent with a basic lending arrangement.

Where the *SPPI test is failed*, the instrument must be measured at **FVTPL**, irrespective of the entity's business model.

Step 2: Assess the Business Model

If the bond passes the SPPI test, classification depends on how the portfolio is managed.

Hold to Collect

Where the objective is to collect contractual cash flows over the life of the bond, the bond is measured at **amortised cost**.

Examples:

- Treasury investments held to maturity.
- Cash management portfolios focused on earning interest income.

Hold to Collect and Sell

Where both collecting contractual cash flows and selling assets are integral to achieving the objective, the bond is measured at **FVOCI.**

Examples:

- Liquidity portfolios.
- Investment portfolios requiring periodic rebalancing.

Other Business Models (Including Trading)

Where the bond is managed on a fair value basis or held for trading purposes, it is measured at **FVTPL.**

Examples:

- Active trading portfolios.
- Portfolios evaluated primarily on fair value performance.

Does Your Reporting Support Your Classification?

Preparers should carefully consider whether its presentation is consistent with the stated business model.

- Return on investments: for FVPL instruments, interest is *not always a separate investment return*, but the total movement is a fair value gain.
- When investments are held for trading purposes, they are typically classified as current assets, irrespective of the maturity date of the investment.

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