

3. FINANCIAL ASSETS

Classification and initial recognition

In accordance with IAS 39, financial assets are to be classified in the following four categories:

- 1. financial assets at fair value through profit or loss;*
- 2. held-to-maturity investments;*
- 3. loans and receivables;*
- 4. available-for-sale financial assets.*

The classification depends on the purpose for which assets are bought and held. Management decides on their initial classification at the time of initial recognition, subsequently checking that it still applies at the end of each reporting period.

The main characteristics of the assets mentioned above are as follows:

Financial assets at fair value through profit or loss

This is made up of two sub-categories:

- financial assets held specifically for trading purposes;*
- financial assets to be measured at fair value under the fair value option designation. This category also includes all financial investments, other than equity instruments that do not have a price quoted on an active market, but for which the fair value can be determined.*

Derivatives are included in this category, unless they are designated as hedging instruments, and their fair value is booked to the Income Statement.

At the time of initial recognition, financial assets held for trading are recognised at fair value, not including the transaction costs or income associated with the same instruments, which are recognised in the Income Statement.

All of the assets in this category are classified as current if they are held for trading purposes or if they are expected to be sold within 12 months from the end of the reporting period.

Designation of a financial instrument to this category is considered final (IAS 39 envisages some exceptional circumstances in which said financial assets may be reclassified in another category) and can only be done on initial recognition.

Held-to-maturity investments

These are non-derivative assets with fixed or determinable payments and fixed maturities which the Group intends to hold to maturity (e.g. subscribed bonds).

The intention and ability to hold the security to maturity has to be evaluated on initial recognition and confirmed at the end of each reporting period.

In the case of early disposal of securities belonging to this category (for a significant amount and not motivated by particular events), the entire portfolio is reclassified to financial assets available for sale and restated at fair value.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and in which the Group does not intend to trade.

They are included in current assets except for the portion falling due beyond 12 months from the end of the reporting period, which is classified as non-current.

Available-for-sale financial assets

This is a residual category represented by non-derivative financial assets that are designated as available for sale and which have not been assigned to one of the previous categories.

“Available-for-sale financial assets” are recorded at their fair value including related purchase costs.

They are classified as non-current assets, unless management intends to dispose of them within 12 months from the end of the reporting period.

Subsequent measurement

Gains and losses on “Financial assets at fair value through profit or loss” are immediately booked to the Income Statement.

“Available-for-sale financial assets” are measured at fair value unless a market price or fair value cannot be reliably determined. In this case the cost method is used.

Gains and losses on “Available-for-sale financial assets” are booked to a separate item under Other comprehensive income until they have been sold or cease to exist, or until it has been ascertained that they have suffered an impairment loss. When such events take place, all gains or losses recognised and booked to Other comprehensive income up to that moment are transferred to the Income Statement.

Fair value is the amount for which an asset could be exchanged, or a liability extinguished, in an arm’s length transaction between informed and independent parties. Consequently, it is assumed that the holder is a going-concern entity and that none of the parties needs to liquidate their assets in a forced sale at unfavourable conditions.

In the case of securities traded on regulated markets, fair value is determined with reference to the bid price at the close of trading at the end of the reporting period.

In cases where no market valuation is available for an investment, fair value is determined either on the basis of the current market value of another very similar financial instrument or by using appropriate financial techniques (such as discounted cash flow analysis).

Purchases or sales regulated at “market prices” are recognised on the day of trading, which is the day on which the Group takes a commitment to buy or sell the asset.

In situations where the fair value cannot be reliably determined, the financial asset is carried at cost, with disclosure in the notes of its type and the reasons for measuring it at cost.

“Held-to-maturity investments” (cat. 2) and “Loans and receivables” (cat. 3) are measured at their amortised cost using the effective interest rate and taking account of any discounts or premiums obtained at the time of acquisition so that they can be recognised over the entire period until their maturity. Gains or losses are booked to the Income Statement either at the time that the investment reaches maturity or when an impairment arises, in the same way that they are recognised during the normal process of amortisation that is part of the amortised cost method.

Investments in financial assets can only be derecognised once the contractual rights to receive the cash flows deriving from such investments have expired (e.g. final redemption of bonds) or if the Group transfers the financial asset and all of the risks and benefits attached to it.