IFRS 9 Financial Instruments
Taking a closer look

The IASB's new financial instruments standard, IFRS 9, applies for years beginning on or after 1 January, 2018 and introduces significant changes to classification and measurement, impairment and hedge accounting. Its impact is sure to reach far beyond finance to areas such as credit risk, systems, data, tax, internal audit and others. The time to act is now.

What's changing?

Measurement & Classification

IFRS 9 introduces a new model for classifying and measuring financial assets and liabilities and, in many cases, the required treatment will differ from IAS 39. For example, if you have financial instruments, externally regulated capital requirements or are sensitive to the potential impact that remeasurement could have on your income statement, careful analysis and planning can help to prevent headaches later on!

Impairment

IFRS 9's new impairment model is a move away from IAS 39's incurred- credit-loss approach towards an expected-credit-loss model. Consequently, impairment losses are likely to be recognized earlier and, for entities with significant lending activities, an overhaul of related systems and processes will be needed.

Hedging

Less stringent quantitative testing requirements and broader scope mean that IFRS 9's new hedging guidance will be a welcome change for most.

Why you should care?

Business Impacts

- IFRS 9 provisions on capital is likely to reduce capital ratios. Companies will need to think through and plan for this change.
- Increased volatility in profit and loss due to forward-looking information in IFRS 9 impairment provisions
- Banks may start to amend certain clauses in their products to ensure that they do not fail Solely Payments of Principal and Interest test.
- It may stop opportunistic sales in certain financial instrument portfolios in order to avoid fair value accounting under the new classification & measurement accounting rules.
- Significant investment in scarce credit modelling and actuarial skills may be needed.
- Changes in contractual clauses to ensure financial assets will not be fair-valued
- Might require significant investment in IT, process and people

Governance & Infrastructure

- Application of significant judgment in all three key areas of IFRS 9
- IT changes and implementation of new functions
- Gathering of new data, potentially from 3rd parties
- Set-up of new processes and controls
- Greater formal documentation supporting decisions and judgements
- Governance processes will rely on quality and consistency of data from its source through to models.
- Added complexity of IFRS 9 provisions (and increased disclosure) will need careful analysis and consideration
- Increasing levels of regulatory engagement are expected, particularly on comparability and disclosure.

Finance and risk

- Calculation of transitional adjustment
- Definition and implementation of new accounting policies
- Disclosure of impact of new standard within financial statements
- Preparation of additional extensive disclosures for the financial statements as of 31 December 2018
- Opening balance sheet audit
- Additional audit procedures
- Impacts all receivables including relates party receivables

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IFRS 9 brings further complexity to the audit

Key requirements

Changes resulting from IFRS 9 bring several new areas into the scope of accounting and audits. In addition to models that are required to be prepared in compliance with IFRS 9, increased attention will be required on the following, which will also be subject to audit:

- Understanding the end-to-end data flow from product inception/modification through to models for all products
- New systems, reports or models
- New data and disclosures
- Increased level of complexity or sophistication of impairment models

Why consider this now?

Contrary to widespread belief, IFRS 9 affects more than just financial institutions. Any entity could have significant changes to its financial reporting as the result of this standard. That is certain to be the case for those with long-term loans, equity investments, or any non-vanilla financial assets. It might even be the case for those only holding short-term receivables. It all depends. The expectation is that all receivables, including related party receivables, will be impacted

With careful planning, the changes that IFRS 9 introduces might provide a great opportunity for balance sheet optimization, or enhanced efficiency of the reporting process and cost savings. Left too long, they could lead to some nasty surprises. Either way, there's enough at stake that if you haven't begun assessing the implications of IFRS 9, now's the time to start—while you still can deal with its consequences to financial statements, systems, processes, controls, and so on in a measured and thoughtful way.

Next steps

Impact Assessment

- *Program governance*
- *Financial impact assessment*
- *Gap analysis and impact on downstream systems*
- *Implementation roadmap*

Design and build

- *Target operating model*
- *Roles and responsibilities*
- *Methodology build*
- *Data, systems, and controls build or integration*
- *Consider other impacts on the business*

Implementation

- *Implement target operating model*
- *Model testing*
- *Data, systems, and controls testing*
- *Systems integration*
- *Reporting and disclosure*

Deployment (Parallel Run)

- *Parallel run*
- *Impact analysis*
- *Reporting*
- *Deployment into full production*

GO Live

Training

Stakeholder management/Develop communication plan

Project management

For more information visit: www.pwc.com/ifrs9

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