Aspire with assurance
IFRS 9 – Financial Instruments
Implementation guide for Corporates
Audit & Assurance
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The new IFRS 9 hedge accounting offers significant opportunities for CFOs to reduce P&L volatility and to align hedge accounting with risk management.
IFRS 9 – What you need to know

Understanding the financial and operational implications that IFRS 9 – Financial Instruments may have on your organisation, are key to developing an effective implementation approach.

IFRS 9 – The regulatory response to the financial crisis
The final version of IFRS 9 – the new financial instrument accounting standard – was developed by the International Accounting Standards Board (IASB) as a response to the financial crisis and issued on 24 July 2014. The standard includes the requirements previously issued and introduces limited amendments to the classification and measurement requirements for financial assets as well as a new expected loss impairment model.

This version supersedes all previous amendments and is mandatorily effective for periods beginning on or after 1 January 2018. Early adoption permitted (subject to local endorsement requirements).

Key changes in financial instruments accounting
The changes in financial instruments accounting affect the following:

- Classification and measurement of financial assets
- Classification and measurement of financial liabilities
- Impairment
- Hedge accounting

Classification and measurement of financial assets
Classification and measurement of financial assets

New principles-based approach which depends on:
- The business model for managing the financial asset
- The contractual cash flow characteristics of the individual financial asset

There is one classification approach for all types of financial assets, including those contain embedded derivatives features. IFRS 9 introduced the Fair Value Through Other Comprehensive Income category for instruments for which both amortised cost and fair value information is relevant and useful.

Classification and measurement of financial liabilities

- No amendments regarding classification of financial liabilities
- New requirements for the accounting of changes in the fair value of an entity’s own debt where the fair value option has been applied.

Impairment

Change to the expected credit loss model for impairment of financial assets:
- Challenges in credit risk management, expected credit loss evaluations and credit risk profile;
- Complex implications across multiple dimensions (model, data, IT etc.)

Hedge accounting

- The use of hedge accounting in IFRS 9 is optional
- Better link between hedge accounting and risk management activities
- Separate active project on accounting for macro hedging activities (currently not part of IFRS 9)
Preparation: key considerations

IFRS 9 creates challenges and impacts widely the organisation. It is more than just interpreting the accounting. Companies need to consider the impacts on their treasury policy, people, processes and systems. Planning for implementation is the first step of what is expected to be a large-scale change.

Companies need to consider the impacts on their treasury policy, people, processes and systems
Transition from IAS 39 to IFRS 9 and hedge accounting

IFRS 9 must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Nevertheless, the standard includes some transition arrangements to full retrospective application that allow a smooth transition to IFRS 9.

New requirements will apply retrospectively with some exceptions and practicability accommodations

- **Classification and Measurement**
  - Business model assessment should be done on the Date of Initial Application (DIA)
  - The review of Solely Payments of Principal and Interest criterion should be based on facts and circumstances at time of initial recognition of the financial instrument

- **Expected loss impairment model**
  - Impact of the application of the expected loss model should be estimated on all financial instruments at the date of their initial recognition using reasonable and supportable information available without undue cost or effort
  - If there is an impracticability to do so, expected credit losses should be assessed at DIA

New requirements for IFRS 9 hedge accounting will apply prospectively

- **Hedge accounting**
  - Hedging relationships meeting IAS 39 criteria at DIA which also qualify for IFRS 9 hedging relationships will be treated as continuing hedges
  - Formerly existing hedging relationship that were not meeting IAS 39 requirements but that now qualify as hedging relationship according to IFRS 9, could be documented prospectively

Key changes introduced by IFRS 9 on hedge accounting requirements

- **Hedging Instrument**
  - Non derivatives at FVTPL
  - Foreign currency basis

- **Hedging Item**
  - Separate risk components
  - Aggregate exposures

- **Designate and document**
  - Cash flow hedge
  - Fair value hedge
  - Net investment hedge

- **Effectiveness assessment**
  - Ineffectiveness measurement
  - “Mechanics” (entries)
  - Disclosure

- **More disclosures**

- ✔️ No more 80-125%
- ✔️ Only prospective
# Implementation: steps to success

Implementation of IFRS 9, requires technical and project management skills, considering its aspects and potential impacts.

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<th>Phase 2 – Assess and analyse portfolio</th>
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<td>Understand the requirements of the new standard</td>
<td>Portfolio analysis to identify scope of IFRS 9</td>
<td>Compare present strategy against potential future strategy by assessing all sources of risk, risk appetite and available hedging options</td>
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<td>Consideration to be given to the impact on treasury policy, people, processes, and systems</td>
<td>Understand and assess how the entity manages its financial assets against business model assessment criteria</td>
<td>Review financial impacts and compare with initial estimates performed</td>
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<td>Review accounting policy choice</td>
<td>Understand and assess the key characteristics of the entity’s financial assets against contractual cash flow characteristics assessment criteria</td>
<td>Identify opportunities to use alternative accounting treatments under IFRS 9</td>
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<td>Identify and estimate the main differences with the existing accounting principles</td>
<td>B/S &amp; P&amp;L assessment to identify potential financial impact</td>
<td>Set the new requirements for the financial statements and other documents/reporting that are impacting</td>
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<tr>
<td>B/S &amp; P&amp;L assessment to identify potential financial impact</td>
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<td>Assess documented treasury policy against best practices</td>
<td>Prepare opening balance sheets and adjustments</td>
<td>Define timeframe</td>
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<td>Review existing economic hedges</td>
<td>Update the accounting manual and other internal process description</td>
<td>Define an action plan</td>
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<td>Existing hedging relationships can continue to apply hedge accounting</td>
<td>Prepare consolidated financial statements and other financial information</td>
<td>Define the project team with the right skills</td>
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<td>Any economic hedges are now eligible for hedge accounting</td>
<td>Prepare hedge documentation where required</td>
<td>Ensure all stakeholders (finance and business) are adequately trained and informed</td>
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<td>Alternative accounting treatments exist (FV option)</td>
<td>Ensure all communication (internal and external) is accurate and in line with the new standards</td>
<td>Establish process to track progress</td>
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How Deloitte can help

Our multidisciplinary and multinational pool of experts allows for project management teams to be formed based on the capabilities and industry knowledge best suited for your organisation. Whether you require bespoke training, or global support, we tailor our solutions to your individual needs and regional requirements.

Training – understanding the requirements of IFRS 9 Financial Instruments
We offer trainings and workshops on all technical aspects of the new standard and its potential impact on your organisation; Whether it is an overview of the new standard’s requirements and its key risks and opportunities for your company or a more technical training on specific elements of the standard – our IFRS 9 experts provide the solution to best address your need.

Gap analysis – building an initial business case
We help you perform an assessment of the main differences between your current accounting policies and the IFRS 9 requirements. Helping you identify the main elements requiring attention for a successful IFRS 9 implementation.

Portfolio review – estimating impacts of IFRS 9
To estimate the impacts of IFRS 9, our experts can review a sample of financial instruments in your portfolio; providing you with an analysis of the implication on existing financial instruments, highlighting elements that may trigger a change in recognition and measurement.

Hedge accounting – we can help you:
• Identify opportunities for using alternative accounting treatments under IFRS 9
• Identify eligible hedge relationships including new and existing hedges under IFRS 9
• Perform P&L and BS impact assessment of hedge accounting
• Implement hedging documentation

Documenting accounting position
Our vast expertise in implementing new accounting standards, equips our experts with the right knowledge to review your accounting policies and presentation of the financial statements (including notes) to ensure full compliance with the new standards.

Project management – one team for all needs
Our project team leads the complete implementation, from defining the project needs, to presenting the assumptions used to your Audit Committee, all the way to the implementation, preparing the changes in your consolidated financial statements.

Post implementation – review
Upon request, we can provide a review of the assessment you have made in designing the IFRS 9 implementation, as long as feedback on the project management is given.

IT implementation support
We can support you during the conception, design phase, use case period and final implementation. Especially on modelling of required calculation around expected credit models and technological implementation in SAP or other treasury systems.
### Key contacts

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Office</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joelle Herbette</td>
<td>Partner Audit &amp; Assurance</td>
<td>Deloitte, Geneva</td>
<td>+41 (0) 58 279 8146</td>
<td><a href="mailto:jherbette@deloitte.ch">jherbette@deloitte.ch</a></td>
</tr>
<tr>
<td>Fabien Bryois</td>
<td>Partner Audit &amp; Assurance</td>
<td>Deloitte, Geneva</td>
<td>+41 (0) 58 279 8048</td>
<td><a href="mailto:fbryois@deloitte.ch">fbryois@deloitte.ch</a></td>
</tr>
<tr>
<td>Laetitia Cejudo</td>
<td>Manager Audit &amp; Assurance</td>
<td>Deloitte, Geneva</td>
<td>+41 (0) 58 279 8449</td>
<td><a href="mailto:lacejudo@deloitte.ch">lacejudo@deloitte.ch</a></td>
</tr>
<tr>
<td>Marco Grossi</td>
<td>Director Audit &amp; Assurance</td>
<td>Deloitte, Zurich</td>
<td>+41 (0) 58 279 7404</td>
<td><a href="mailto:mgrossi@deloitte.ch">mgrossi@deloitte.ch</a></td>
</tr>
<tr>
<td>Ralph Odermatt</td>
<td>Director Financial Services</td>
<td>Deloitte, Zurich</td>
<td>+41 (0) 58 279 7534</td>
<td><a href="mailto:rodermatt@deloitte.ch">rodermatt@deloitte.ch</a></td>
</tr>
<tr>
<td>Oliver Koester</td>
<td>Director Audit &amp; Assurance</td>
<td>Deloitte, Zurich</td>
<td>+41 (0) 58 279 7577</td>
<td><a href="mailto:okoester@deloitte.ch">okoester@deloitte.ch</a></td>
</tr>
<tr>
<td>Alessandro Regogliosi</td>
<td>Director Audit &amp; Assurance</td>
<td>Deloitte, Lugano</td>
<td>+41 (0) 58 279 9431</td>
<td><a href="mailto:aregogliosi@deloitte.ch">aregogliosi@deloitte.ch</a></td>
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