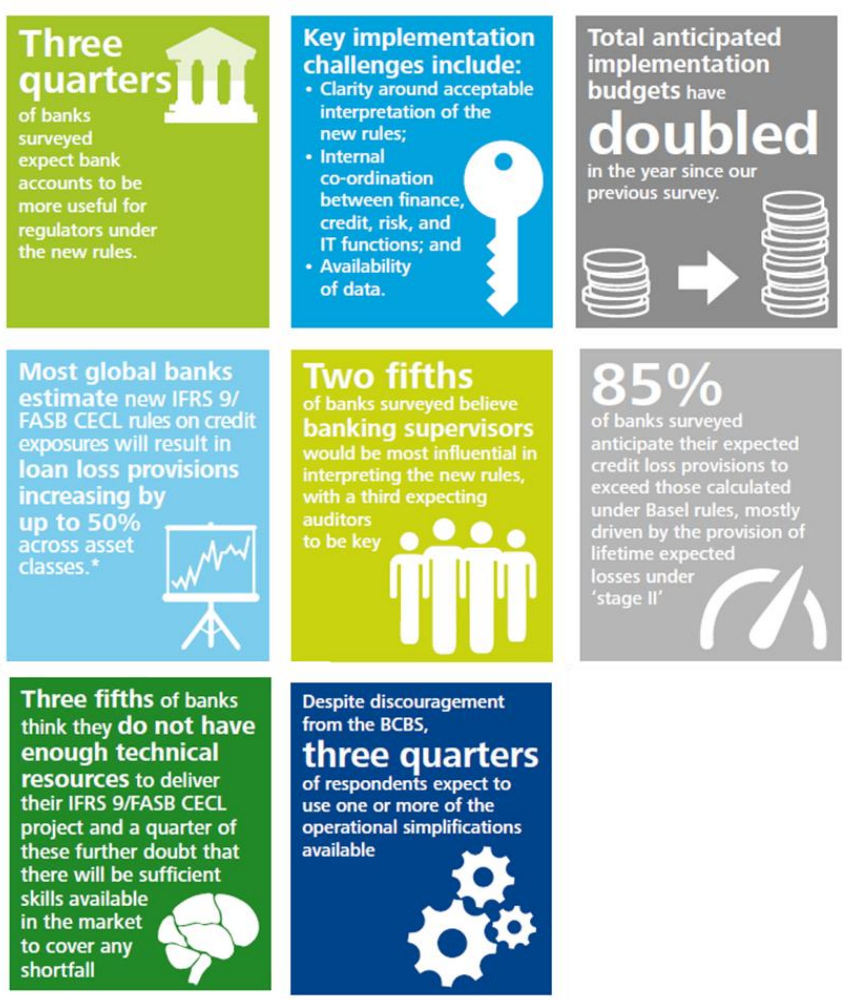
IFRS 9

Adapting to new reporting requirements

Deloitte IFRS 9 Impact Study – May 2015

The survey includes the views of 59 banks from Europe, the Middle East & Africa, Asia Pacific and the Americas (42 of which are IFRS reporters).

Responses were received from 17 of the 30 global systemically important financial institutions (G-SIFIs)



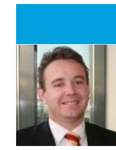
IFRS 9 is the new financial instruments standard that will replace IAS 39. It introduces new requirements for classifying, measuring and accounting for financial assets and financial liabilities. IFRS 9 covers three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Financial institutions will face significant challenges in preparing for IFRS 9. Although the mandatory effective date is not until 2018, the timescales for implementation remain challenging. A well structured roadmap and a clear change strategy will enable you to manage complexity more effectively.

	Classification and Measurement	Impairment	Hedge Accounting
Changes	• Major driver for classification: Business Model and Cash Flow Characteristics • New Fair Value to Other Comprehensive Income) FVTOCI- mandatory for assets that are held within a business model whose objective is achieved by both holding to collect contractual cash flows and selling assets. • Amortised cost- if asset is held in a business model to collect contractual cash flows.	• New Impairment rules apply to financial assets measured at amortised cost or Fair Value through OCI. • Move from incurred loss model to expected loss model • Dual Measurement approach-depending on the credit risk. 1) 12 month expected credit losses 2) Full life time expected credit losses	• The new hedge accounting approach of IFRS 9 aligns hedge accounting more closely with an entities risk management activities. • The requirements are <u>optional</u> if certain qualifications are met: • There is an economic relationship. • The effect of credit risk does not dominate the value changes. • The hedge ratio is the same.
Key Impacts	• It will be necessary to adjust existing processes and systems: • Data entry & control processes • New attributes, valuation models, amortized cost calculations, impairment procedures, IFRS booking rules, etc. • New processes for regular business model and cash flow criteria test • For the comparison year(s) parallel processes for IAS 39 and IFRS 9 are necessary; depending on the existing reporting environment can be challenging and costly. Transition provisions make it difficult to run in parallel two set of books	• The impairment requirements and implications have to be analysed and coordinated among a number of affected functions. Areas affected will include: • Criteria of allocation • Methods of loss provisioning • Trigger for transfers • Booking rules • Disclosure and reporting • IT and processes	• Impact on designation and de-designation of hedge relationships (e.g. voluntary de-designation of hedging relationships no longer allowed) • More products are eligible for designation (e.g. external derivatives) – more potential hedges, but enhanced reporting requirements • Adjustment of the hedge effectiveness assessment - no more "bright line" threshold for retrospective hedge effectiveness, higher significance of qualitative analysis in the hedge effectiveness assessment • Adjustment of hedge accounting posting rules due to external derivatives as hedged items, cash instruments as hedging instruments & new requirements regarding effectiveness
Challenges	• Getting clarity over business model • Managing diversity in contractual arrangements (re: cash flow characteristics criterion) • Overcoming data gaps, e.g. in valuation data, identifier for Business Model, etc. • Determining appropriate asset reclassifications	• Pre-emptive analysis of current impairment strategy, processes, IT • Full assessment of impairment impact • Designing of future impairment processes	• Key challenge is expanded reporting requirements • Assessment of hedging strategy to best utilise amended rules re: designation

Our experience in implementation projects to date suggests that organisations tend to underestimate the effort involved in adapting to IFRS 9 standards, particularly for classification and measurement

Contacts



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What do you need to consider when implementing changes for IFRS 9?

Operationalising IFRS 9 Changes

Models
- What are the requirements that need to be incorporated into your new impairment models? (PD, LGD, EL, etc.)

Data
- Where are there gaps in your understanding of your current business model?
- Where is additional data needed?

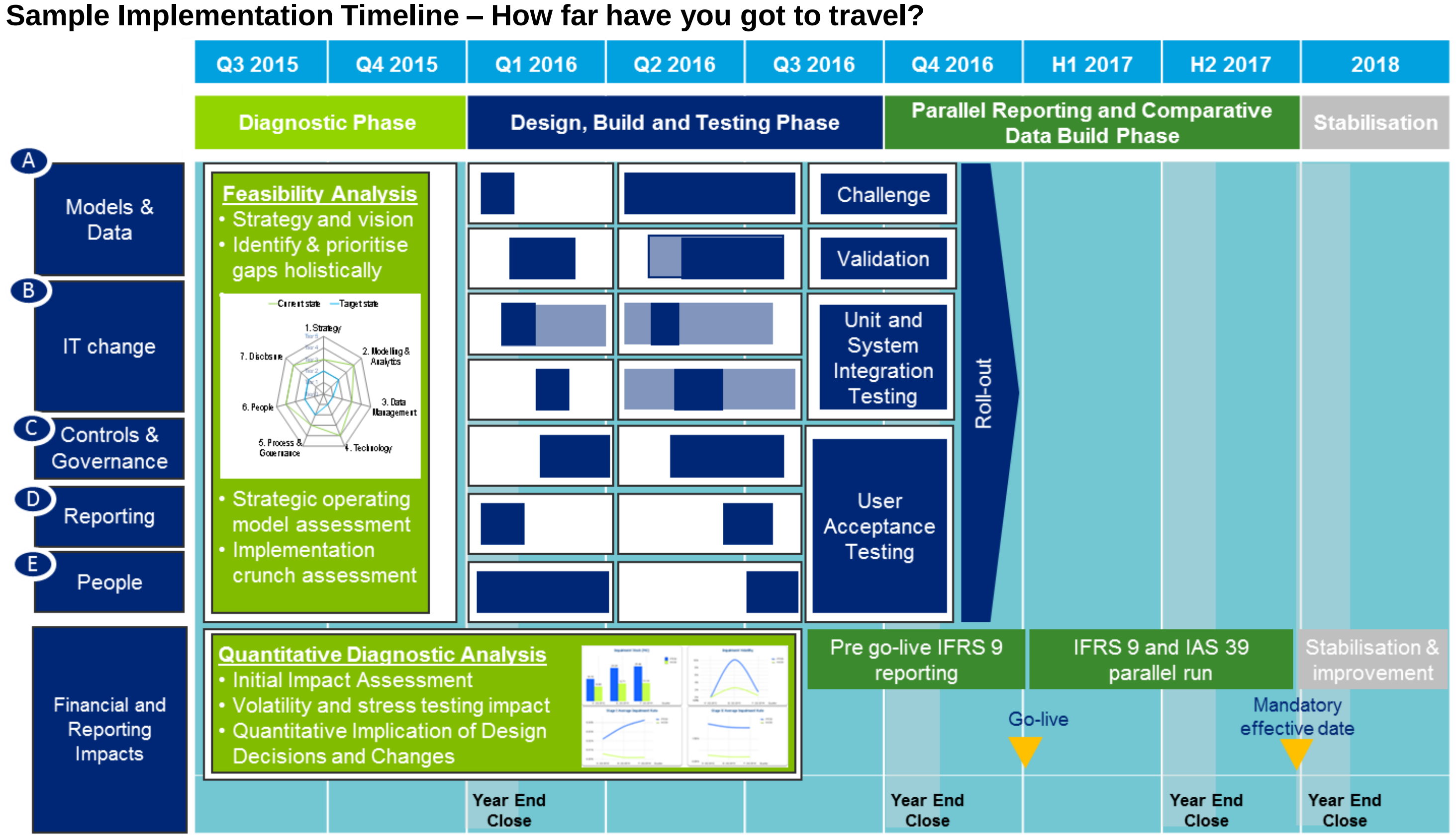
IT
- Are your systems prepared for IFRS 9 implementation?
- Where are additional resources needed?

Controls
- Is your current internal control environment adequate?
- Where do additional / replacement controls need to be designed?

Reports
- How will you manage additional / amended reporting requirements?
- Are your reporting structures equipped for parallel reporting?

People
- What are your resource needs to support change implementation?
- Where are your skill gaps for post-2018 BAU?

Sample Implementation Timeline – How far have you got to travel?



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Gap Analysis	Developing Specifications	Test Support

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