

The Deloitte logo is displayed in a bold, blue, sans-serif font. The background of the entire page features a blurred, high-angle view of a modern office interior with blue geometric shapes and white architectural elements.

Deloitte.

IFRS 9

Adapting to the new reporting requirements

Deloitte Malta
Banking

Our industry view

Key insights from Deloitte 2014 Fourth Global IFRS Banking Survey

The pre-study is structured to assess timescales, quantitative impacts on provisions and capital, IFRS 9 mobilisation activities and IT requirements.

Industry perspective	Activity
Banks require three years implementation time so may come under pressure with a 2018 effective date.	The Target Operating Model (TOM) study enables us to estimate the expected implementation timeline which could span across more than three years depending on the level of operating model changes required.
Over half of banks surveyed believe that the expected loss approach will result in banks' provisions increasing up to 50% across all loan asset classes.	Bank's current impairment level is unique and should not result in the same impact for all banks. However, we would undertake a high level QIS to estimate the impairment stock impact and identify methodology and data gaps which would benefit from accelerated analysis.
Coordinating multidisciplinary effort including finance, credit, risk and IT and resource constraints cited as the key IFRS 9 implementation challenge.	As part of the IFRS 9 mobilisation activities we would set up and develop a cross-functional, Risk and Finance IFRS 9 Steering Group to ensure consistent and coordinated effort across the Bank.
70% of banks surveyed anticipate their IFRS 9 expected loss provision to be higher than current regulatory expected loss. However, capital planning uncertainty is set to continue as regulators' responses to changes are not yet known.	We would explore capital implications, which could be immaterial in a benign economic climate, but may be adverse in a crisis under the current rules. We are proactively monitoring any changes in prudential regulation.
56% of banks surveyed are concerned about credit data reconciliation and credit data quality.	When articulating IT requirements for the defined business case we would outline options to improve the robustness of credit data and in turn, minimise the risk of accounting requirement breaches.

Source: Fourth Global Deloitte IFRS Banking Survey.

IFRS 9 focus – In the survey, Deloitte asked 36 questions about the application of existing and proposed parts of IFRS 9 and regulatory capital planning.

54 banks – Responses were gathered from 54 banks across Europe, Middle East and Africa, Asia Pacific and North America, including 14 global systemically important financial institutions (G-SIFIs).

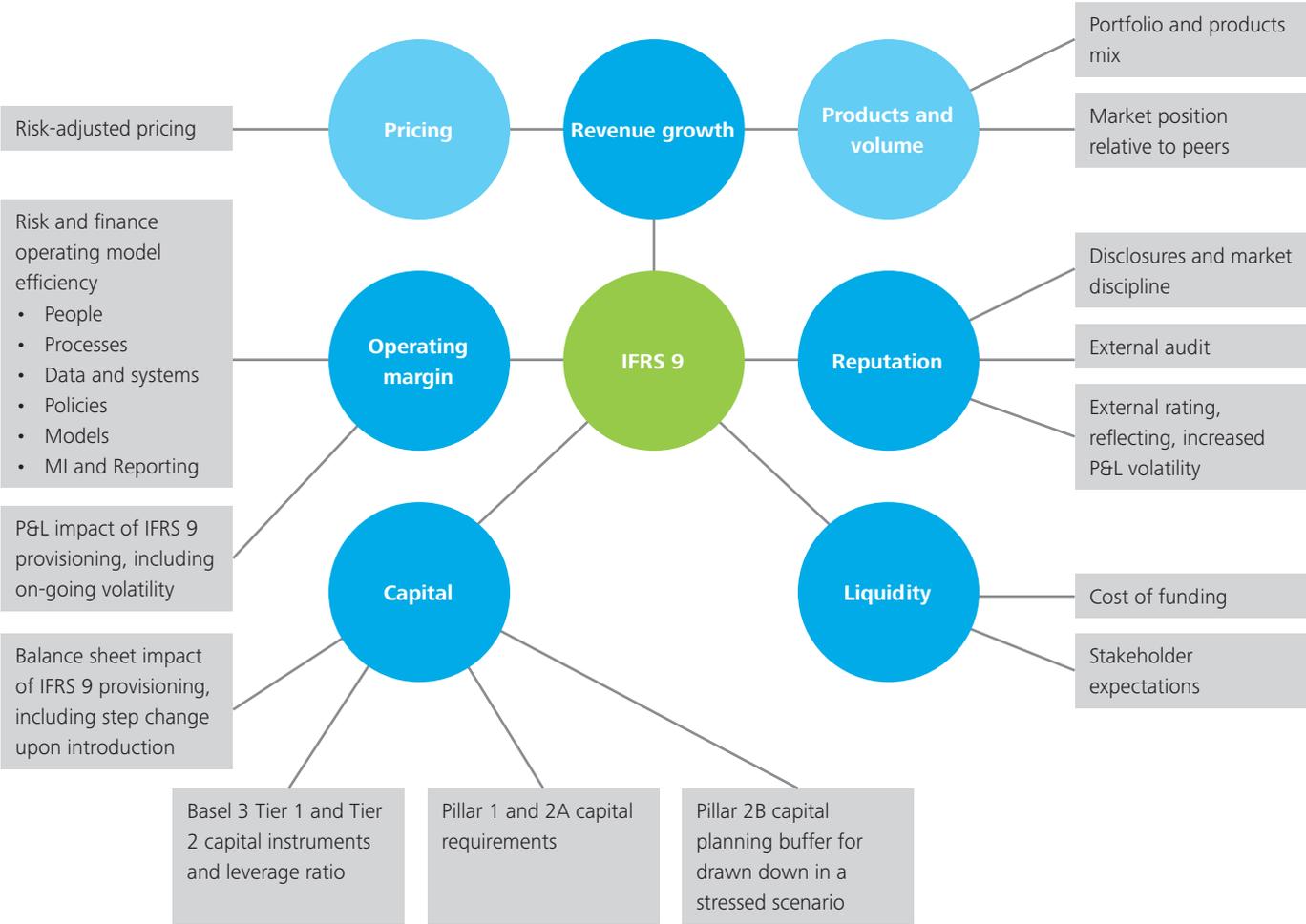
Our understanding of your needs

A well structured roadmap and a clear change strategy will enable you to manage complexity more effectively

	Classification and measurement	Impairment	Hedge accounting
Changes	<ul style="list-style-type: none"> Major driver for classification: Business Model and Cash Flow Characteristics New 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. 	<ul style="list-style-type: none"> 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: <ol style="list-style-type: none"> Twelve month expected credit losses Full life time expected credit losses 	<ul style="list-style-type: none"> The new hedge accounting approach of IFRS 9 aligns hedge accounting more closely with an entity's risk management activities. The requirements are optional 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	<ul style="list-style-type: none"> It will be necessary to adjust existing processes and systems: <ul style="list-style-type: none"> Data entry and control processes New attributes, valuation models, amortised 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 	<ul style="list-style-type: none"> The impairment requirements and implications have to be analysed and coordinated among a number of affected functions. Areas affected will include: <ul style="list-style-type: none"> Criteria of allocation Methods of loss provisioning Trigger for transfers Booking rules Disclosure and reporting IT and processes 	<ul style="list-style-type: none"> 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. derivatives) - more potential hedges, but enhanced reporting requirements. Adjustment of the hedge effectiveness assessment -no more "bright line" threshold for retrospective hedge effectiveness. Adjustment of hedge accounting posting rules due to external derivatives as hedged items, cash instruments as hedging instruments and new requirements regarding effectiveness.
Challenges	<ul style="list-style-type: none"> Getting clarity over business model. Managing diversity in contractual arrangements. Overcoming data gaps, e.g. in valuation data, identifier for business model, etc. Determining asset reclassifications. 	<ul style="list-style-type: none"> Pre-emptive analysis of current impairment strategy, processes, IT. Full assessment of impairment impact. Design of future impairment processes. 	<ul style="list-style-type: none"> Key challenge is expanded reporting requirements Assessment of hedging strategy to best utilise amended rules re: designation

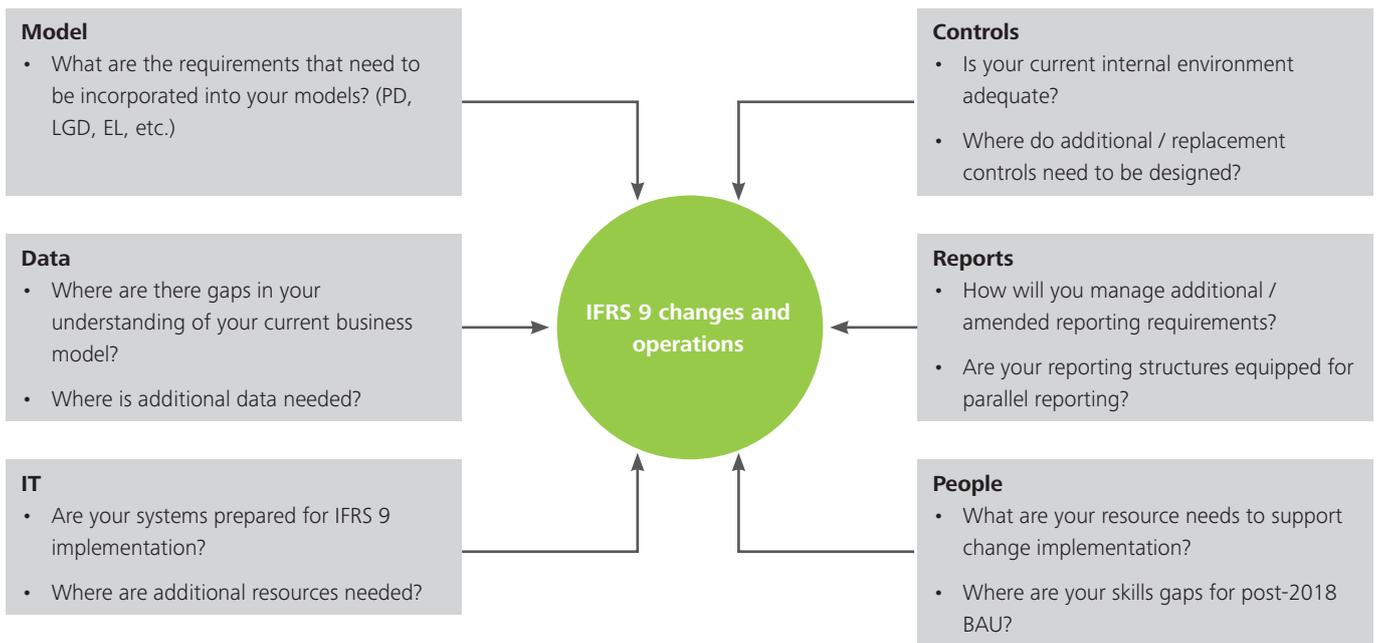
IFRS 9 high level impact

IFRS 9 creates wider challenges for organisations beyond the direct, quantifiable impact on impairment and P&L with indirect but material impacts on a wide range of factors contributing to shareholder value.



IFRS 9 high level impact

What you need to consider when implementing changes for IFRS 9

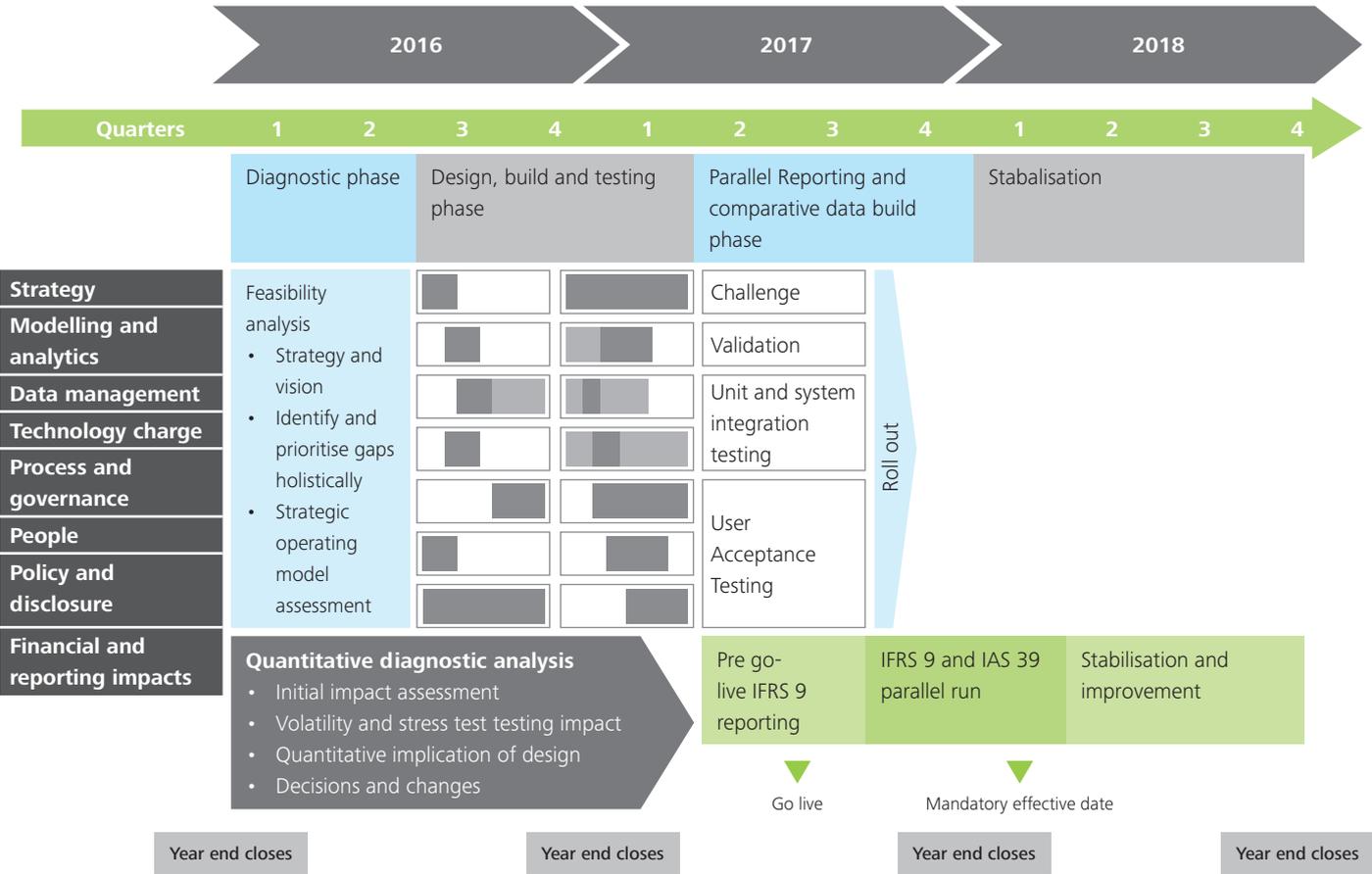


The key to a successful transitioning to IFRS 9 is ensuring a cohesive understanding of the dependencies across the business in order to develop a balanced approach to the technical implementation.

IFRS 9 classification and measurement overview

Accounting policies	<ul style="list-style-type: none"> New guidelines for classification and measurement. Potentially, amended guidelines for management accounting – depending on the decision how far IFRS 9 should be reflected.
Markets/Front office	<ul style="list-style-type: none"> Consideration of business model impacts as well as cash flow characteristics on IFRS 9 classification, adjusted New Product Process. Consideration of IFRS 9 impacts on pricing, e.g. for loans.
Processes	<ul style="list-style-type: none"> Links risk and finance processes, especially regarding impairment. Adjusted processes for classification and hedge accounting. Adjusted New Product Process.
Governance	<ul style="list-style-type: none"> Clarification of future IFRS 9 responsibilities of the Finance, Risk and Controlling departments necessary. Set-up of a IFRS 9 project governance.
IT Systems	<ul style="list-style-type: none"> IFRS 9 impacts all IT layers, e.g. new attributes, new evaluation functions, adjusted booking rules, adjusted reporting. Parallel processing to compare year(s) is challenging.
Finance, Risk and IT staff	<ul style="list-style-type: none"> IFRS 9 will require significant support from internal resources during the project. Releasing staff from regular tasks through external support should be considered. Know-how transfer on ongoing basis necessary.
Budgets	<ul style="list-style-type: none"> IFRS 9 will at least have impacts on 2015 and 2016 budgets. Gap analysis for enabling reliable budget estimation should be started soon.

Implementation timeline

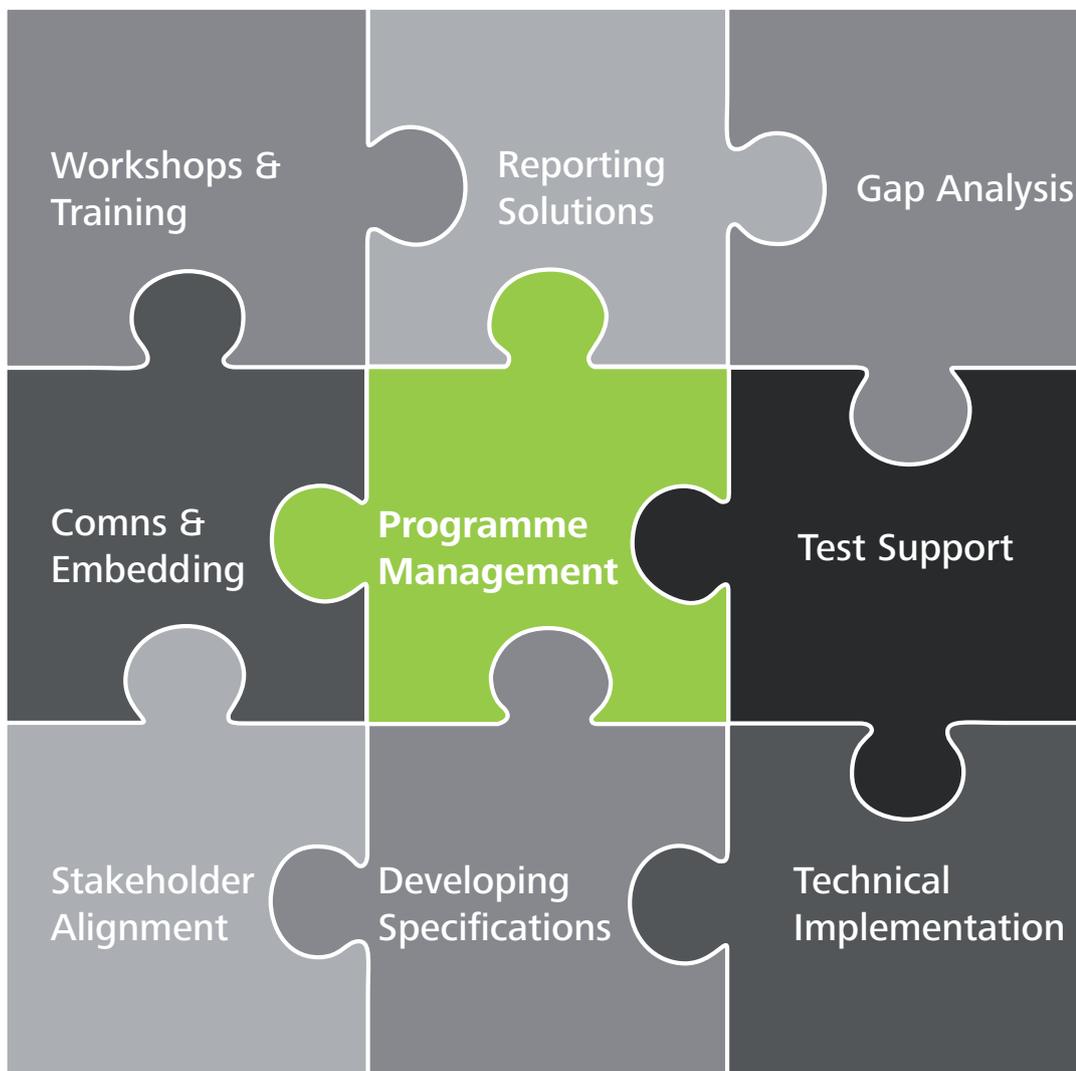


The nine IFRS operationalising changes

How can Deloitte support you?

IFRS 9 requires a robust level of inter-organisational cooperation, in particular across high impact areas such as Risk, Finance and Accounting.

The nine IFRS 9 operationalising changes are consolidated into six workstreams, acting as the key in ensuring a cohesive understanding of the dependencies across the business in order to develop a balanced approach.



Project governance and workflow

We can provide programme management, specialist finance, accounting and systems expertise to complete the visioning and definition phases

Your key objectives	Programme governance	Financial impact assessment	Gap analysis and impact on downstream systems	Data and systems architecture	Disclosure requirements	People management and workshops
Our support model	<ul style="list-style-type: none"> • Set-up the project sponsorship • Define clear objectives and deadlines • Coordinate among Risk, Finance, and Operations • Deloitte PMO tools 	<ul style="list-style-type: none"> • Determine methodology • Customise modelling approach for the specific portfolios • Determine key assumptions and sensitivities for each portfolio 	<ul style="list-style-type: none"> • Assessment of existing practices: models, methodologies, and operating models • Review impact on internal management information, KPIs, product pricing etc. 	<ul style="list-style-type: none"> • Review data availability and quality • Review of system controls 	<ul style="list-style-type: none"> • Determine the required data for risk reporting, internal management reporting and financial statements • Design reporting templates 	<ul style="list-style-type: none"> • Determine the required skill set for implementing IFRS 9 • Realign the key functions of Risk, Treasury and Finance in accordance with IFRS 9 requirements • Identify the resources needed during the implementation phase • Provide specialised training

Deploying the full breadth of our market leading Finance Transformation support model

- We have market leading experience of Finance Transformation within the banking industry. In particular, we have helped major UK, German, and Dutch banking institutions at various levels in relation to implementation of IFRS 9;
- We will provide an integrated solution encompassing process, people, and accounting covering the key elements of an IFRS 9 implementation;
- We have Finance, Accounting and Regulatory expertise that can provide insight into your operations and the future regulatory changes which will impact you;
- We provide an interactive approach, with you at the core.

Our differentiating factors

IFRS 9 poses a number of key challenges and we can look to support you through every aspect of this change programme.

We are experienced in delivering transformation programmes

Our team has extensive technical knowledge of accounting standards, in particular IAS 39. Our experienced staff have been involved in IAS 39 and IFRS 7 implementation programmes. Furthermore, Deloitte Malta is a recognised leader in banking services in Malta and is the only Big 4 firm which has been involved in all AQR exercises giving us a unique insight into the local scene. We have successfully managed various stakeholders, including the MFSA and the ECB, and delivered these complex exercises in the most effective and efficient manner.

We have a unique perspective of this program

Since 2011 Deloitte has supported a number of banks in Germany, UK, Ireland, Netherlands, US and China during the pre-study phase of IFRS 9 which has given us a better understanding of the practical issues in applying the new requirements. Deloitte will provide an experienced delivery team with proven ability to assess the qualitative and quantitative impacts of transition to IFRS 9, enabling APS to make appropriate and supported design choices. Deloitte has skilled and knowledgeable resources and proven systems, methodologies and track record.

We understand the challenges faced by your business

Whilst IFRS 9 can be seen as an accounting policy change, in line with the intention of the IASB and regulators, it can create business-wide challenges for banking organisations. IFRS 9 has a direct, quantifiable impact on impairment provisions feeding into the P&L but it also has an indirect but material impact on a wide range of factors contributing to shareholder value.

Selected EMEA credentials			
Client	Projects	IFRS 9 pre-study	IFRS 9 implementation
ABN-AMRO	IFRS 9 pre-study regarding Classification & Measurement and Impairment, validation of ABN AMRO's solution for Classification and Measurement, impact study on impairments driven by ED Workshops and gap analysis of the impairment model.	✓	✓
HSH Nordbank	IFRS 9 pre-study with focus on Classification & Measurement as well as implementation planning, ongoing implementation project including product-wise specifications and reporting.	✓	
Nord LB	Support implementation IFRS, Support IFRS 9 categorisation, analysis and implementation of IFRS securities/ loans, IFRS requirements for foreign currency translation.	✓	✓
KFW Bankengruppe	IFRS 9 pre-study: Impact analysis, project planning, project management.	✓	
Landesbank Baden-Württemberg	General, functional and detailed concept for the implementation of IFRS with focus on pre-study Phase I Classification & Measurement, Set-Up Implementation IFRS 9 Phase I, IFRS 9 pre-study regarding Impairment.	✓	✓
Large German bank	Specification and Implementation of IFRS 9 (Classification & Measurement, Impairment, Hedge Accounting), Simulations, Migration SAP Bank Analyzer from Merge to Subledger Scenario, Specification and Implementation parallel closing, adjustment of SP GL, Group Reporting, Test-Change and Project Management		✓
Large French bank	Impact analysis of IFRS 9 with regards to: <ul style="list-style-type: none"> Phase I: Classification & Measurement Phase II: Impairment 	✓	

For further information contact:

Dimitrios Goranitis

Leader - Banking
dgoranitis@deloitte.com.mt

Mark Micallef

Senior Manager - Banking
mmicallef@deloitte.com.mt

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/mt/about for a more detailed description of DTTL and its member firms.

Deloitte Malta refers to a civil partnership, constituted between limited liability companies, and its affiliated operating entities: Deloitte Services Limited, Deloitte Technology Solutions Limited, Deloitte Consulting Limited, and Deloitte Audit Limited. The latter is authorised to provide audit services in Malta in terms of the Accountancy Profession Act. A list of the corporate partners, as well as the principals authorised to sign reports on behalf of the firm, is available at www.deloitte.com/mt/about.

Cassar Torregiani & Associates is a firm of advocates warranted to practise law in Malta and is exclusively authorised to provide legal services in Malta under the Deloitte brand.

Deloitte provides audit, consulting, financial advisory, risk management, tax, and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 225,000 professionals are committed to making an impact that matters.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.