On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, an updated lost impairment model and introducing limited amendments of the classification and measurement requirements for financial assets. This version modifies all previous versions and is mandatory effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). IFRS 9 replaces IAS 39 with a new impairment model, accounting rules, and modern approach to the classification and measurement requirements for financial assets. The various informational content and context transition requirements of IFRS 9 will necessitate the need to gradually move towards its adoption from an early stage. This is because transition is retrospective, which sets considering the provisions of IAS 8 (Changes in Accounting Estimates, errors, and correction of errors).

IFRS 9 introduces a new methodology for financial instruments classification and the incurred loss impairment model is replaced with a more forward looking expected loss model. This is all in addition to the many new requirements on hedge accounting. These fundamental changes however, call for care planning. For corporate treasurers and accountants generally, transitioning to the new IFRS 9 implementation is going to be an important issue. A study/impact assessment phase is recommended as a starting point of the IFRS 9 journey and entities are required to assess the impact of the new standard as well as the impact of the new standard on their reporting entities. Companies will need to collect and analyse additional data and implement new processes. For banks and other financial institutions especially, implementing the new standard will tremendously affect how credit losses are being accounted for. The expected impairment loss model will indubitably bring about bigger and volatile provisions and implementing the new model will require a lot of time. Non-financial institutions on the other hand should not automatically assume that the impact of requirements of the new standard will be lesser as this will depend on the financial instruments exposure they have and how they manage them.

Issues to be considered
As CFO's and CRO's begin to discuss implications internal controls and the business processes, technology and controls that will be necessary to drive an effective implementation.

The implementation of IFRS 9 will undoubtedly bring about a closer integration of different functions and skills (finance/treasury, accounting, risk management, quantitative modelling), inclusion of new instruments particularly under the new impairment framework (loans, commitments and financial guarantee contracts) and the preparation of new methodological financial instruments. This means that a large scale multi-disciplinary team with the skill sets and experience required in various aspects of IFRS 9's implementation process.

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<tr>
<th>Event Date</th>
<th>Requirement/Action</th>
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<td>1 January 2018</td>
<td>Entities are expected to be fully ready for IFRS 9 implementation.</td>
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Timeline as the first challenge: As at 1 January 2018, entities are expected to be fully ready for IFRS 9 implementation. It therefore means that internal policies and procedures, expected loss assessment models, IT systems etc must be fully ready to support transition to the new requirements. Many financial institutions may come under pressure even with the 2018 effective date but a leader at three of five years is generally believed to be appropriate for all phases of IFRS 9.

The business model test. The term ‘business model’ is used by IFRS 9 to denote how financial assets are managed and the extent to which cash flows will result from collecting contractual cash flows, selling financial assets or both. However, many entities are finding that the classification of financial assets is not quite as straightforward as expected and the integration of corporate strategy and credit risk strategy may be required in order to appropriately classify financial assets. In addition, the business model test of IFRS 9.

Determination of significant increase in credit risk. Entities are required to recognize an allowance for either 12-month or lifetime expected credit losses (ECLs), depending on whether there has been a significant increase in credit risk since initial recognition. The need to assess whether there has been a significant increase in credit risk will require new data, processes and the exercise of judgement.

The need to incorporate forward looking information. The Expected Credit Loss (ECL) model is more forward looking than the IAS 39 impairment model. This is because holders of financial assets are now required to consider reasonable and supportable information that includes forecasts of future economic conditions when calculating ECLs.

In order to make such estimates, an increased use of external data will be required. In addition, information on understanding the IFRS 9 financial standard will be lesser as this will require an increased volume of data. Non-financial institutions, in particular, will have to collect and analyse additional data and implement new processes.

Disclosure and communication of financial impact. Though disclosure requirements are not included in IFRS 9 itself, but in IFRS 7 ‘Financial instruments: Disclosures’, IFRS 7 has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, treatment of own credit risk, 3-stage impairment model new hedge accounting requirements and transition provisions. Designing an IFRS 9 programme which addresses business requirements, calls for clear communication and management of multiple stakeholders expectations. The stakeholders include SEC, banking regulators, shareholders, management, external auditors, rating agencies etc.

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