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IFRS 9 Implementation - Time to get ready

For corporate treasurers and accountants generally, the planning for 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 should focus on understanding the IFRS 9 financial and operational implications, with outcomes being key inputs to the design and implementation phases

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). IFRS 9 (2014) fundamentally redrafts the accounting rules for financial instruments. The various informational content and 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, whilst still considering the provisions of IAS 8 (Changes in accounting policies, estimates 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 major new requirements on hedge accounting. These fundamental changes however, call for careful planning. For corporate treasurers and accountants generally, the planning for 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 should focus on understanding the IFRS 9 financial and operational implications, with outcomes being key inputs to the design and implementation phases. With the implementation of IFRS 9, entities will need to assess people, 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 (loan commitments and financial guarantee contracts) and the preparation of new methodological framework, policies and processes. This means that a large scale multi-disciplinary project team will in many cases be required to implement IFRS 9. The table below highlights some of the functions that may be involved in the various aspects of IFRS 9's implementation process:

Aspects of IFRS 9	Concerned departments
1. Classification -	Treasury, Risk Management and Financial control
2. Measurement -	Treasury, Risk management and Financial control
3. Impairment -	Risk management, Internal control, Financial control
4. Off balance sheet transactions -	Risk management, originating department, financial control
5. Hedge accounting -	Risk management, financial control
6. Disclosures -	Financial control and risk management

Why Companies need to act now!

Though IFRS 9's mandatory effective date of 1 January 2018 may seem a long way off, entities are strongly advised to start evaluating the impact of the new standard now as well as the impact on reported results. Many entities will need to collect and analyse additional data and implement changes to systems. For banks and other financial institutions especially, implementing the new standard will tremendously affect how credit losses on loan portfolios are being accounted for. The expected impairment loss model will indisputably 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 implementation with management, the following issues should be considered:

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 lead time of three 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 connote 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 straight forward as expected and the integration of corporate strategy and credit risk strategy may be required in order to appropriately classify financial assets in accordance with the business model test of IFRS 9.

Determination of significant increase in credit risk. Entities are required to recognise 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. The need to incorporate forward-looking information means that application of the standard will require considerable judgement as to how changes in macroeconomic factors will affect ECLs.

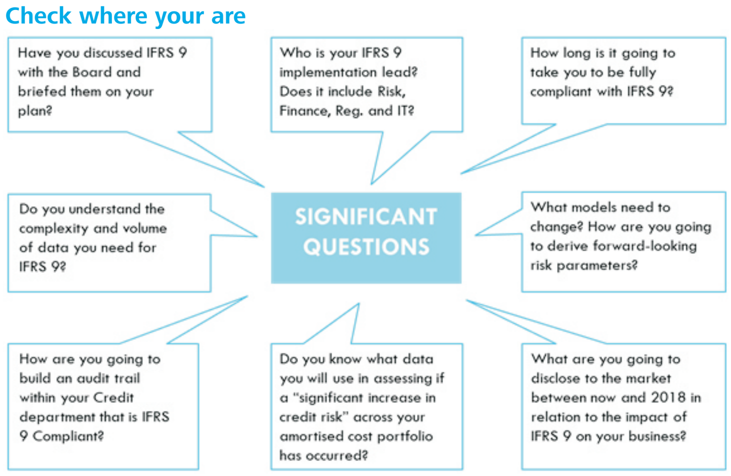
Obtaining information from current systems. Given the retrospective application of the Standard and the increased disclosures, entities are finding that an increased volume of information is required. This information may not be readily available from current systems, which may not have captured and maintained data at the level of detail required under IFRS 9.

IT Systems to be adjusted. In order to achieve IFRS 9 compliance, even well developed and documented impairment systems will require further adjustments in respect of areas to be changed/revised. Now that some entities are slowly beginning to understand their needs for implementation and ongoing reporting, they are also identifying gaps in the tools that are currently available to meet these needs. Given the very specific requirements of the new Standard, information required for both accounting and disclosure purposes needs to be captured and assessed in a certain manner. To avoid or limit manual intervention and reconciliations, the importance of integrated, cross-functional tools and software is becoming more apparent.

Volume of data can be very challenging. As noted above, the new standard calls upon a significant amount of data accumulation for both accounting and disclosure purposes - this is a process that cannot be underestimated. For example, the new standard requires the increased use of estimates in certain areas such as when determining significant increase in credit risk. In order to make such estimates, an increased amount of data will be required to be compiled and analyzed in a meaningful manner to ensure estimates are reliable and appropriate.

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.

Check where your are



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