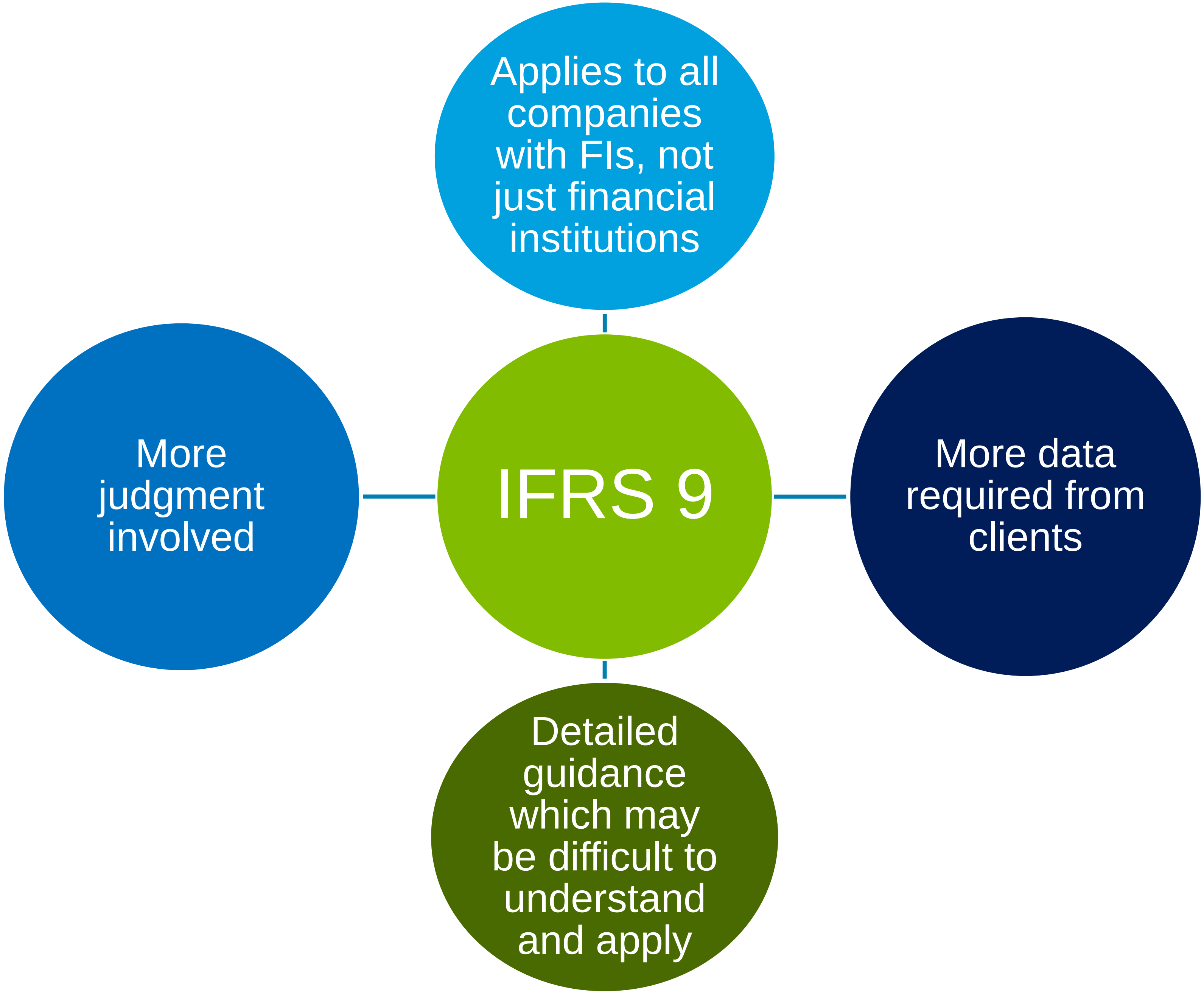
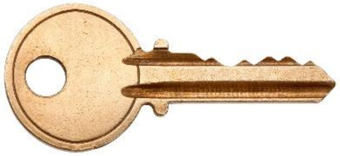
IFRS 9
Financial Instruments (2014)

What impact will IFRS 9 have on your clients?



Getting prepared for IFRS 9



Develop knowledge related to IFRS 9 principles

Develop skills in applying IFRS 9 in common scenarios

Identify key client considerations related to IFRS 9

Communicate key considerations with clients

Get your clients prepared as early as possible!

Agenda

Session	
1	Overview of IFRS 9 *Financial Instruments*
2	IFRS 9 *Classification and Measurement*
3	IFRS 9 *Impairment*
4	Application of IFRS 9 *Financial Instruments*
5	Transition requirements
6	Getting your clients prepared

IASB project on Financial Instruments

The IASB issued the final version of **IFRS 9 *Financial Instruments*** on July 24, 2014.

Classification and Measurement

Impairment

General Hedge Accounting

Macro Hedge Accounting

Separate project

Development of IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments*

	Pre 2013	2013	2014	2018
Classification & Measurement	Phase Finalized + Limited Amendments ED		Limited Amendments	Effective 1/1/2018
Impairment	Exposure Draft		New Impairment Model	
General Hedge Accounting		Phase Finalized		
Macro Hedging			Discussion Paper	

IFRS 9 *Classification and Measurement*

What will you learn?

Obtain a working knowledge of classifying financial instruments into the appropriate categories under IFRS 9

Identify and discuss the impact on clients related to the key provisions of C&M

Classification and Measurement

Obtain a working knowledge of measurement requirements under IFRS 9

Why make changes to IFRS 9?
Classification and Measurement

IAS 39

- Contains many different classification categories and associated measurement and impairment requirements, reducing comparability
- Application issues arose on classification and measurement of financial assets
- Difficult to understand and apply in practice

IFRS 9

- Reduces the complexity of classification categories and measurement requirements
- Makes the classification and measurement model compatible to a single impairment model
- Improves comparability and makes reporting easier to understand for readers

What are the differences?

IAS 39 Classification

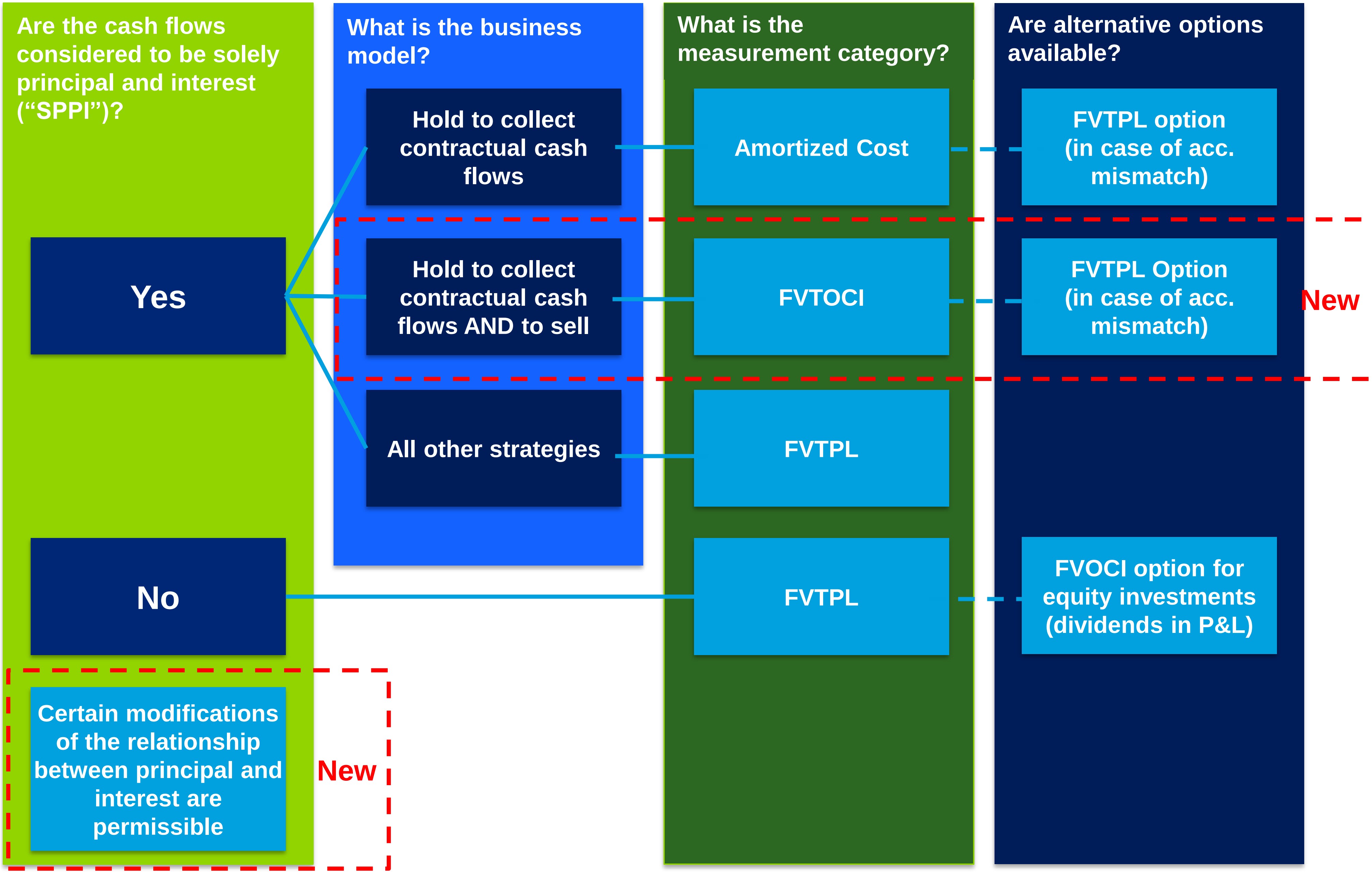
- Rule-Based
- Complex and difficult to apply
- Own credit gains and losses recognized in P&L for fair value option (FVO) liabilities
- Complicated reclassification rules

IFRS 9 Classification

- Principle-based
- Classification based on business model and nature of cash flows
- Own credit gains and losses recognized in OCI for FVO liabilities
- Business model-driven classification

Classification and Measurement—overview

Financial assets



IFRS 9 *Impairment*

What will you learn?

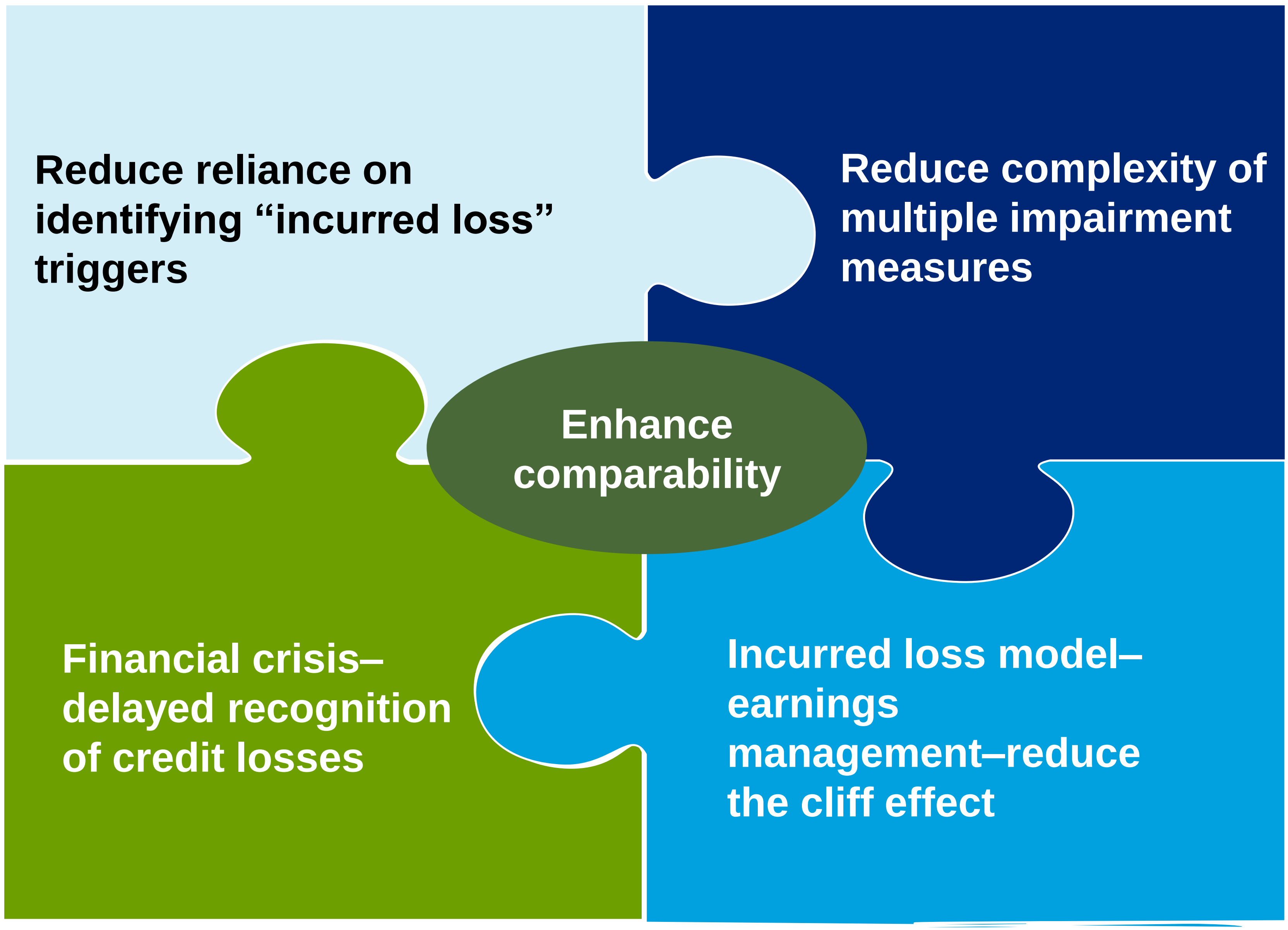
Obtain a working knowledge of the new impairment model under IFRS 9.

Identify the impact of the key provisions of Impairment on clients.

Impairment model

Identify the key differences of the impairment model between the existing and new requirements.

Why have changes been made to the impairment model under IFRS 9?



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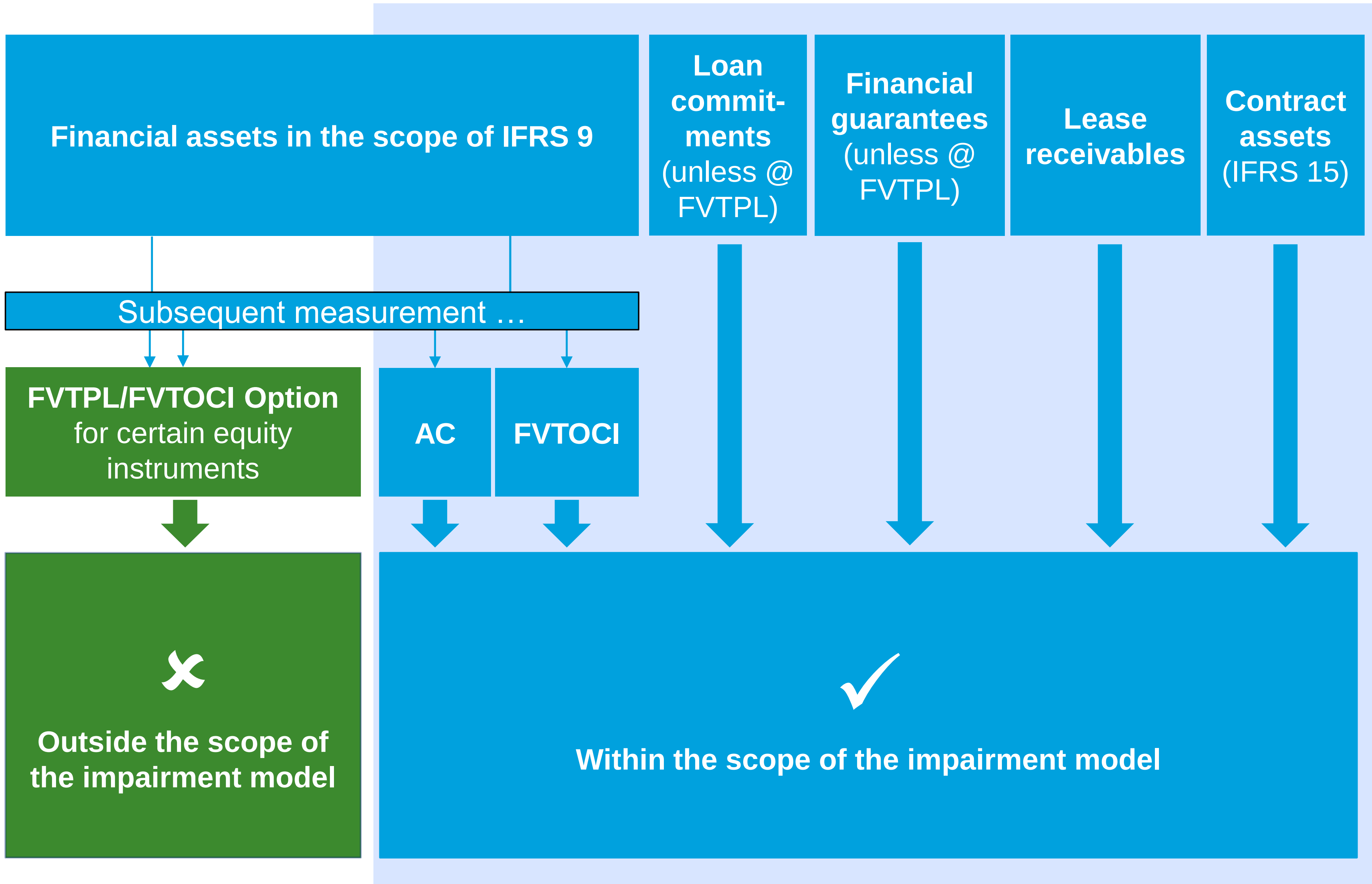
How is this different from existing practices?

IAS 39	IFRS 9
Multiple impairment models –incurred loss	One impairment model –expected losses

Scope



Financial assets in the scope of IFRS 9
Loan commit-ments (unless @ FVTPL)
Financial guarantees (unless @ FVTPL)
Lease receivables
Contract assets (IFRS 15)
Subsequent measurement …
FVTPL/FVTOCI Option for certain equity instruments
AC
FVTOCI
Outside the scope of the impairment model
Within the scope of the impairment model

Expected credit losses

Credit losses

The difference between:

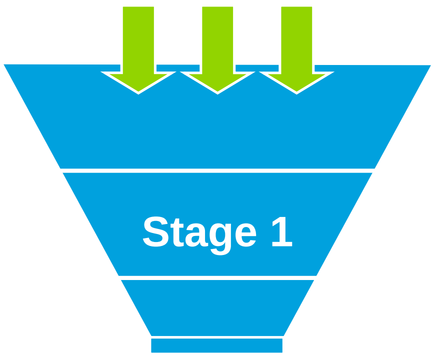
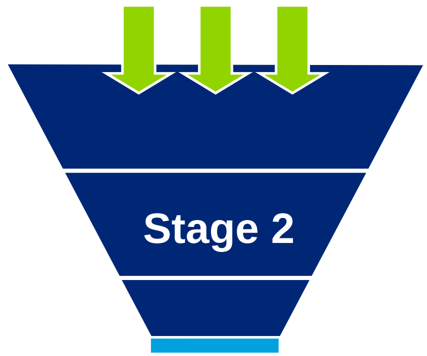
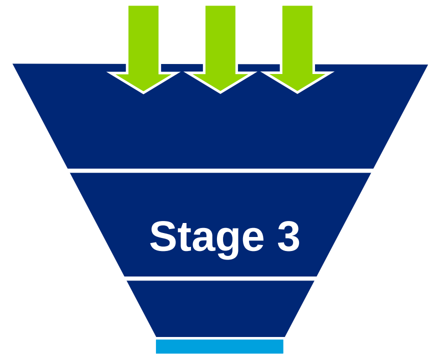
1) All contractual cash flows that are due to an entity in accordance with the contract; and
2) All the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original **effective interest rate.**

(NB, for purchased or originated credit-impaired financial assets, apply the credit adjusted effective interest rate).

Expected credit losses

The weighted average of **credit losses** with the respective risks of a default occurring as the weights.

Expected credit loss (ECL) model

Stage 1	Stage 2	Stage 3
No **significant** increase in credit risk	**Significant** increase in credit risk **and** greater than low credit risk **but** no objective evidence of impairment	**Objective** evidence of impairment
		
12-month expected credit losses	**lifetime expected credit losses**	**lifetime expected credit losses**
interest calculated on **gross** carrying amount	interest calculated on **gross** carrying amount	interest calculated on **net** carrying amount

Simplifications and exceptions:

- Low credit risk model
- Purchased or originated credit-impaired financial assets
- Trade receivables and contract assets

Expected loss allowance

12-month vs. lifetime

12-month expected credit losses	Full lifetime expected losses
• 12-month ECLs are those that result from default events on the financial instrument that are possible within the 12 months after the reporting date. • The lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring. • Do **not** confuse with the idea of the cash shortfalls expected in the next 12 months– these are different concepts.	• Full lifetime ECLs are those that result from all possible default events over the expected life of the financial instrument. • Impairment losses are measured at lifetime ECLs if an instrument's credit risk has increased significantly since initial recognition. • If a significant increase in credit risk reverses by a subsequent period, then measurement of the impairment allowances will revert to 12-month ECLs (**except** for purchased/originated credit-impaired instruments).