FINANCIAL INSTRUMENTS WOR
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IFRS 9 – Financial Instruments Transitional provisions and disclosures

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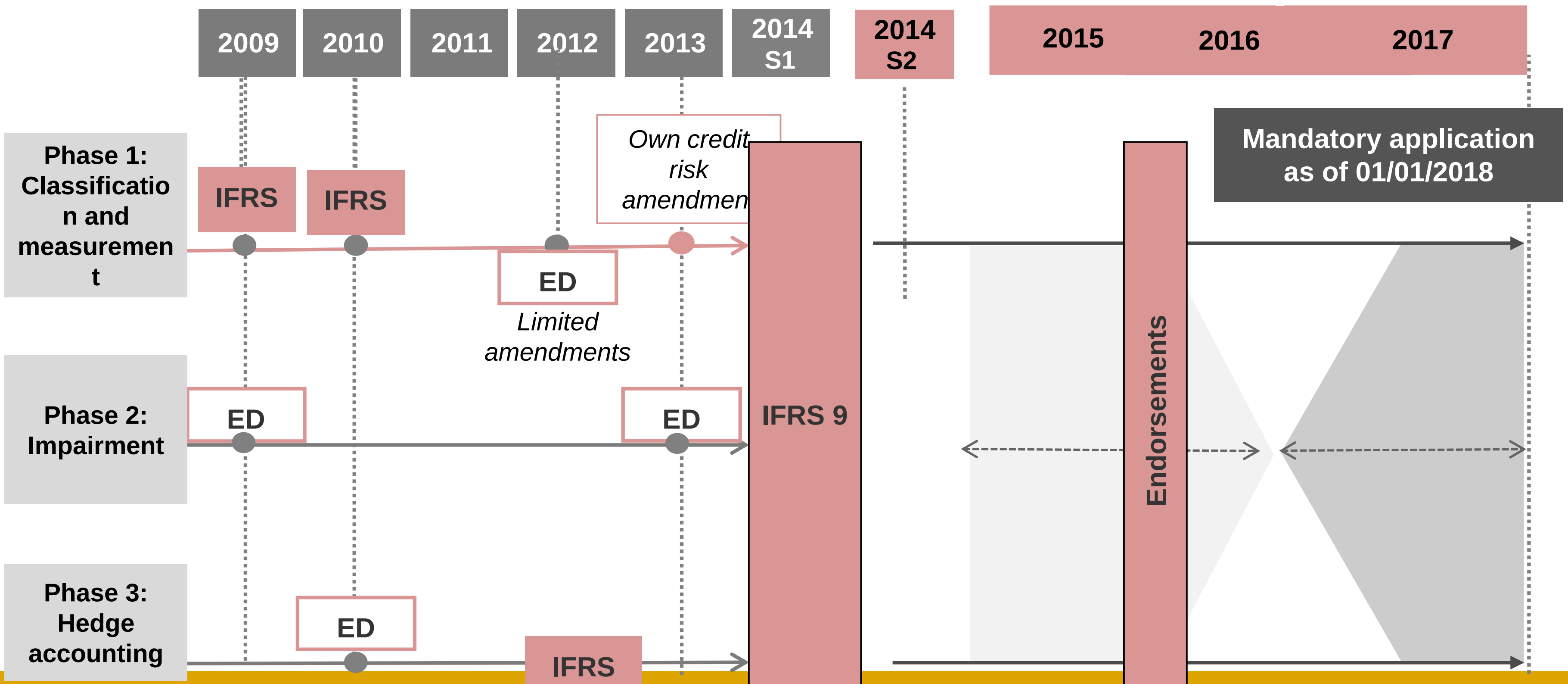
Why Transition

- Convergence
- Need to reduce complexities presented by IAS 39
- The move toward principle based standards rather than rule based
- Improved credit risk provisioning

How did we get here

- IFRS 9 project was executed in 3 Phases
- Issued over 5 years in piece meal with 4 exposure drafts
- 9 years to implement 2009-2018



IAS 39 v IFRS 9

Area of difference	IAS 39	IFRS 9
Classification and measurement of financial assets after initial recognition	AFS, HTM, FVTPL, FVTOCI, Loans and Receivables	Amortized cost, FVTPL, FVTOCI
Impairment of financial assets	Incurred loss model	Expected loss model
Hedging	Rule based	Principle based

Content

- Assessments done at the date of initial adoption
- Key transitional provisions
- Disclosures

IFRS 9 – Transitional provisions

- To consider:
- IAS 1 – Presentation of Financial Statements
- IAS 8 – Accounting policies, changes in accounting estimates and errors
- CBK guidance
- Global practices

IFRS 9 – Transitional provisions

- IFRS 9 should be applied retrospectively *(not to be confused with restatement)* in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, exceptions might include:
  - If its not practical to retrospectively apply the EIR method;
  - If it would require undue cost or effort to determine impairment at the date of initial recognition
  - Hedge accounting – an entity can continue applying IAS 39 for hedge accounting.

IFRS 9 – Considerations as at DIA – Classification and measurement

- Assess the objective of the business model the asset / liability is held within
- Assess if the asset meets the SPPI requirement
- Determine the fair value (IFRS 13) if it is not possible to use the EIR method
- Re-designate instruments previously measured as FVTPL

IFRS 9 – Considerations as at DIA – Classification and measurement

- Assess the accounting mismatches brought about by financial liabilities' credit risk presented in OCI
- For hybrid contracts not fair valued in prior periods, determine the adjustments needed.
- Determine if there is an increase in credit risk since initial recognition.
- Recognise any difference in the carrying amount in the opening retained earnings

IFRS 9 – Considerations as at DIA – Impairment

- Must be applied retrospectively in accordance with IAS 8
- Determine if there is significant credit risk increase since the date of initial recognition – if there is recognise lifetime EL, if not recognise 12 months EL

IFRS 9 – Disclosures

Category	Minimum disclosures
Original and New Measurement	For each class of financial assets or financial liabilities: • Original measurement category and carrying amount determined via IAS 39. • New measurement category and carrying amount determined via IFRS 9. • Amount of any financial assets or liabilities in the statement of financial position previously designated at FVTPL but are no longer so designated. *(Note: Distinguish between those reclassified as a requirement of IFRS 9 and those reclassified through election at the date of initial application)*

IFRS 9 – Disclosures

Category	Minimum disclosures
Qualitative Disclosures	• How the entity applied the classification requirements in IFRS 9 to financial assets whose classification changes as a result of applying IFRS 9. • The reasons for any designation or de-designation of financial assets or financial liabilities measured at FVTPL at the date of initial application.
Changes in Classification	Changes in the classifications of financial assets and liabilities as at the date of initial application, showing separately: • The changes in carrying amounts on the basis of their measurement categories in accordance with IAS 39. • Changes in carrying amounts resulting from changes in measurement attributes on transition to IFRS 9.

IFRS 9 – Disclosures

Category	Minimum disclosures
Reclassified Financial Assets and Liabilities	For financial assets and financial liabilities reclassified to amortized cost and, in the case of financial assets, reclassified out of FVTPL to be measured at FVOCI as a result of transition to IFRS 9, disclose: • The fair value of the financial assets or financial liabilities at the end of the reporting period. • The fair value gain or loss that would have been recognized in profit or loss or OCI during the reporting period if reclassification had not taken place. For financial assets and financial liabilities that have been reclassified out of FVTPL as a result of transition to IFRS 9, the effective interest rate determined on the date of initial application and the interest revenue or expense recognized.

IFRS 9 – Disclosures affecting Statement of Profit and Loss

- IAS 1 (82)
  - Credit impairment losses
  - Gains/losses on derecognition of assets measured at amortised cost.

IFRS 9 – Disclosures affecting Statement of Comprehensive income

- IAS 1 (7)
  - Net gains on investments in AFS assets
  - Net gains on investments in AFS reclassified to P&L
  - Net gains on investments in debt instruments measured at FVOCI
  - Net gains/loss of financial assets measured at FVOCI reclassified to P&L on disposal

IFRS 9 – Disclosures affecting Statement of Changes in Equity

- IAS 1 (7)
  - Changes on initial application of IFRS 9

IFRS 9 – Disclosures in the Notes

- New accounting policies:
- A statement of the new policies required by IFRS 9.
- Explain the new ECL, Classification and measurements

IFRS 9 – Disclosures in the Notes

- Impairment provision reconciliation
- A reconciliation of closing IAS 39 provision to Opening IFRS 9 provision
- Qualitative information will be key – e.g. those relating to stage 1, 2, 3

IFRS 9 – CBK Guidance

- Proposed a 5 year transition period

i) Recognition of additional provisions under ECL provisioning:
Any incremental provisions under the ECL model should be charged to the income statement but the same should be added back over a five year period for purposes of computing core capital to lower the impact of the additional provisions on core capital during the transition period.

ii) Disclosure:
During the transition period, institutions should disclose, in their published results, their core and total capital ratios both before and after the additional expected credit loss provisions have been added back. This is aimed at facilitating assessment of the impact of the additional ECL provisions on the institution's capital position and bottom line.

iii) Statutory Loan Loss Reserve:
Where the CBK provisions are higher than IFRS 9, the excess provisions shall be treated as an appropriation of retained earnings and not expenses in determining profit and loss. Therefore, such excess shall be credited to the statutory loan loss reserve as provided in CBK/PG/04 on Risk Classification of Assets and provisioning.

IFRS 9 – Transition challenges

- ❑ Availability of data
- ❑ Integration with the existing frameworks
- ❑ Higher impact on profits