IFRS 9 for Banks and Other Financial Institutions

Objectives

IFRS 9 introduces a new business model-based approach to classification and measurement of financial instruments; an impairment model based on expected losses and simplification of hedge accounting. In this intensive one-day workshop we will look at the changes in IFRS 9 and its impact on financial statements. Specifically, participants will be equipped to:

- Identify the reasons for replacing IAS 39 with IFRS 9
- Evaluate the key changes in accounting for financial instruments
- Analyze the potential financial and business implications of adopting IFRS 9 for banks and other financial institutions

Content

Introduction to IFRS 9

The aim of this section is to provide a background to IFRS 9, its effective date, an overview of transition requirements and to introduce the key topics covered in the standard.

- The catalyst for change: Issues with IAS 39 and the 2008 global financial crisis
- IFRS 9 adoption: Effective date, transition requirements
- Key topics in IFRS 9: Recognition of financial instruments, classification and measurement, impairment, de-recognition and hedge accounting
- **Case study:** Application of the principle of substance over legal form to the recognition of financial liabilities and equity instruments

Classification and Measurement of Financial Assets and Financial Liabilities

The aim of this section is to explain the classification of financial assets and financial liabilities, initial and subsequent measurement and de-recognition principles.

Classification and measurement of financial assets

- Recap of IAS 39 classification and measurement: Fair value through profit or loss, held-to-maturity, loans and receivables, and available-for-sale financial assets
- IFRS 9 classification: Amortized cost, fair value through profit or loss and fair value through other comprehensive income – different treatment for debt and equity instruments
- Fair valuation: Credit valuation adjustment, debit valuation adjustment and fair value hierarchy
- Embedded derivatives: Simplified approach in IFRS 9
- De-recognition of financial assets: IAS 39/IFRS 9 complexity, IFRS 9 disclosure changes
- **Case study:** Analyze the impact on the financial statements of applying the business model and cash flow characteristic tests which determine the classification of financial assets

Classification and Measurement of Financial Assets and Financial Liabilities (cont.)

Classification and measurement of financial liabilities

- Recap of IAS 39 classification: Fair value through profit or loss, amortized cost
- Own credit risk issue: IAS 39 anomaly, IFRS 9 accounting for fair value movements due to changes in own credit risk of financial liabilities at fair value through profit or loss

Impairment of Financial Assets

The aim of this section is to review the principles contained in the expected credit loss impairment model and analyze its impact on loss provisioning within the financial statements.

Incurred losses vs. expected losses

- Recap of IAS 39 impairment principles: Application to financial asset categories, objective evidence and measurement
- Introduction to IFRS 9 impairment model: Background, scope of the model, financial and non-financial impact

Application of IFRS 9 impairment model

- Three-stage approach: 12-month expected credit losses, lifetime expected credit losses, calculation of interest income
- Assessment of significant changes in credit risk
- Individual and collective assessment of impairment
- Default: Definition, changes in the risk of default and estimating expected credit losses
- Purchase/origination of credit-impaired financial assets
- Simplification and practical expedients: Trade receivables, contract assets, lease receivables and low credit risk assets
- Implementation challenges: Data availability, estimates, judgements and assumptions
- **Case study:** Measurement of IAS 39 vs. IFRS 9 impairment and its impact on loss provisioning in financial statements

Hedge Accounting

The aim of this section is to evaluate the issues with IAS 39 hedge accounting and how IFRS 9 adopts a more principles-based approach.

Introduction and background to IFRS 9 hedge accounting

- Recap of IAS 39 hedge accounting: Types of hedges – fair value, cash flow and net investment hedge, accounting for different types of hedges
- Background to IFRS 9: Issues with IAS 39 hedge accounting, primary areas addressed and macro hedging

IFRS 9 updates

- New hedged exposures: Risk components, synthetic positions, net positions, equity investments at fair value through other comprehensive income
- Use of hedging instruments: Non-derivatives, accounting for time value of options, forward points and foreign currency basis spread
- Hedging relationship: Hedge effectiveness, modifications, discontinuation
- Disclosures: Amendments to IFRS 7 financial instruments disclosures
- **Case study:** Fair value and cash flow hedge accounting and analysis

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Saket Modi is a financial trainer and consultant for Fitch Learning based out of London. He has designed and facilitated workshops for finance professionals from over 50 countries in Europe, Middle East, Africa and Asia.

Saket specializes in financial reporting and analysis (IFRS/IPSAS), financial instruments, corporate finance and CFA® exam preparatory courses. He has spent considerable time working, advising and training in matters relating to IFRS, and delivered workshops for corporates, banks and similar financial institutions, public sector organizations, and professional services firms.

Saket has written material on IFRS Accounting for Financial Instruments for Institute of Chartered Accountants in England and Wales (ICAEW) and was invited by the International Auditing and Assurance Standards Board® (IAASB®) to present on IFRS 9 at their board meeting in New York. He has recently delivered IFRS 9 for Banks courses at Fitch Ratings in London and Moscow, and for ICAEW in London.

Saket has previously worked with Lloyds Bank, Ernst & Young and PricewaterhouseCoopers. In addition to being a member of the Institute of Chartered Accountants of India, Saket holds IFRS certificate from the ICAEW and IPSAS Diploma from the Chartered Institute of Public Finance and Accountancy (CIPFA). He has an MSc in Multinational Accounting and Financial Management from UK and is a CFA® charter holder.