

# IFRS 9 (and related standards)

## *Financial Instruments*

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IFRS UPDATE FOR REGULATORS

**CFRR** 

Centre for Financial  
Reporting Reform



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## Purpose of session

The purpose of this session is two-fold:

- » in the context of the Covid pandemic, to revisit judgements and estimates in measuring and reporting expected credit losses in accordance with IFRS 9 and the related regulatory guidance for prudential regulators; and
- » to propose to collect views for the IASB's post implementation review of IFRS 9 Financial Instruments.

**COVID 19**



# Introduction

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- » The covid-19 pandemic represents an unprecedented global crisis, affecting not only our collective health and well being, but the global economy
  - » The ramifications and the impact on economies and entities continue
  - » The International Accounting Standards Board (IASB) and staff noted and shared concerns about the impact of covid-19
  - » The IASB actively monitoring financial reporting issues arising from covid-19



## IASB Support

- » IASB undertook to respond to urgent issues arising from covid-19 through discussions with stakeholders, educational material, and, when necessary, urgent amendments to IFRS Standards
- » The Board also undertook to adhere to due process
- » IFRS 9 was considered by the Board as an area where guidance could be helpful
  - » The Board noted that each jurisdiction had different challenges and different interventions
  - » Consequently, it issued a short guidance note only



## IASB Support

### *Educational materials on IFRS 9 and covid-19*

- » IASB received questions about ECL in uncertain times
- » Educational material stressed the need for:
  - » judgement
  - » considering adjustments to existing approaches; existing approaches should not be applied mechanistically
  - » estimate using reasonable and supportable information
- » Confirmed that IFRS 9 provided important transparency and information about changes in credit risk as ECLs change
- » Provided some examples in working through these points in these uncertain times.



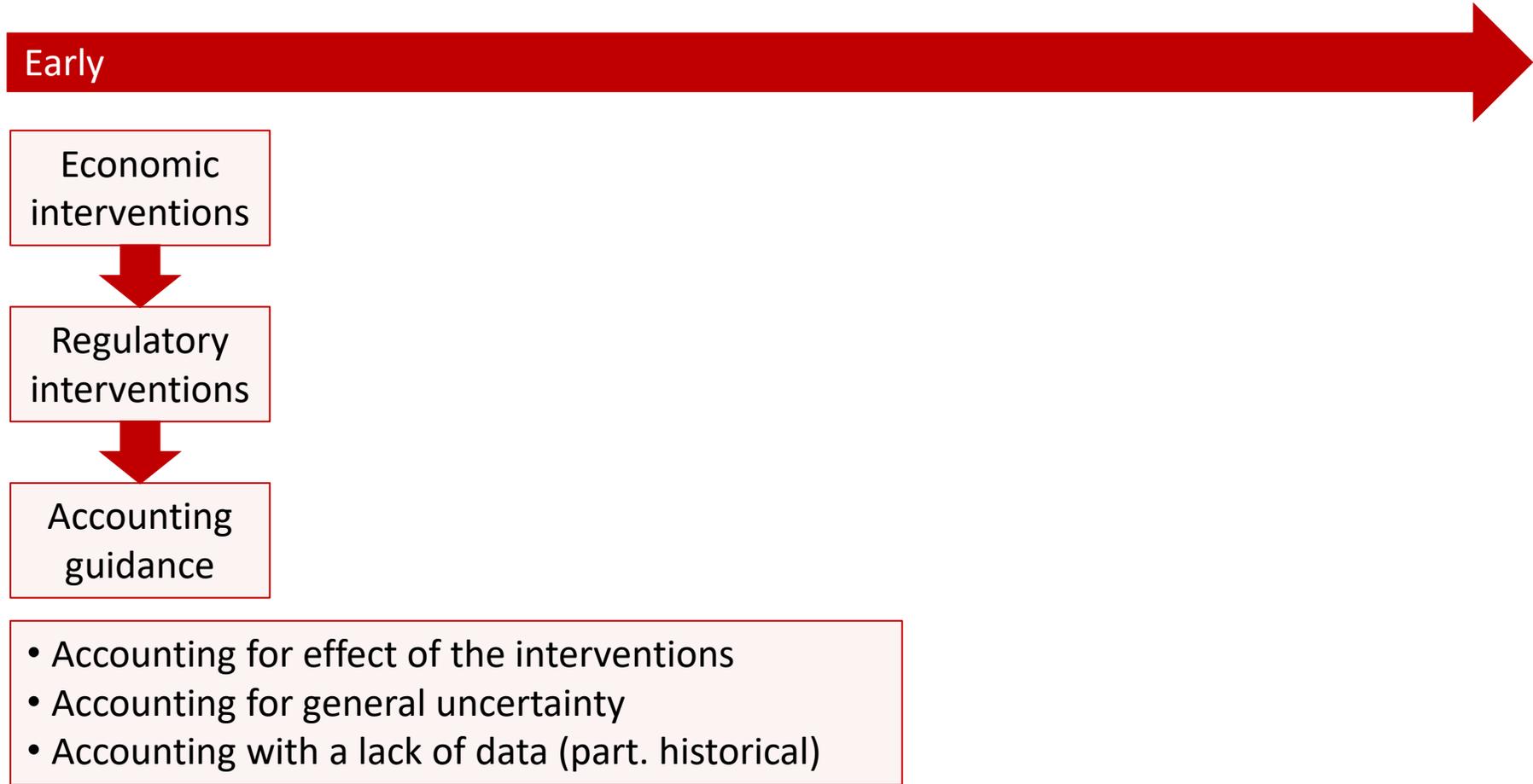
# Incentive for regulatory participation

## *Accounting guidance*

- » Addressing systemic risk
  - » Limiting outliers from interpretative or data differences
  - » Facilitating transparency and credibility of market information
  - » Limiting differences between accounting and regulatory information
- » Securing accurate and understandable reporting of the impact of the virus and the interventions
- » Maintaining confidence in the prudential process



# Typical Timeline





## Early interventions *Applying IFRS 9*

- » Following economic intervention (debt standstill, interest rates etc) and regulatory intervention (capital and liquidity relief, etc)
- » Regulators (typically with standard setters) engaged preparers to:
  - » Ensure auditors and preparers were talking to each other
  - » Encourage (and enforce) continued compliance with IFRS
  - » Provide insight into data availability and best estimates
  - » Provide encouragement to reconsider models given new info
  - » Encourage the development of 'overlays'
  - » Publish supporting material



## Early interventions

### *Applying Other IFRSs*

- » The known uncertainties of financial environment place greater emphasis on applying accounting judgement
- » This is particularly the case for forward looking measures (eg fair value, expected credit losses)
- » Applying IFRS 7 read with IAS 1 and IAS 8 requires:
  - » Disclosure of significant judgements, and
  - » Disclosure of material effects (including where effects might be expected to make a difference but don't).
- » Regulators engaged with industry to facilitate or ensure transparency





## Mid-cycle interventions

- » Regulators (typically with standard setters) engaged preparers to:
  - » Ensure ongoing dialogue
  - » Provide economic insight into consumer and business wellbeing
  - » Encourage a common approach to common data issues
  - » Encourage (and enforce) continued compliance with IFRS
  - » Continue to encourage or enforce appropriate disclosures, especially as regards significant judgements





## Late interventions

- » Regulators (typically with standard setters) engaged preparers to:
  - » Consider implication of the ending of economic interventions
  - » Encourage discussion of emerging data, particularly as interest/payment holidays end
  - » Continue to encourage or enforce appropriate disclosures, especially as regards significant judgements



## Late interventions

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## *IFRS for SMEs* Standard

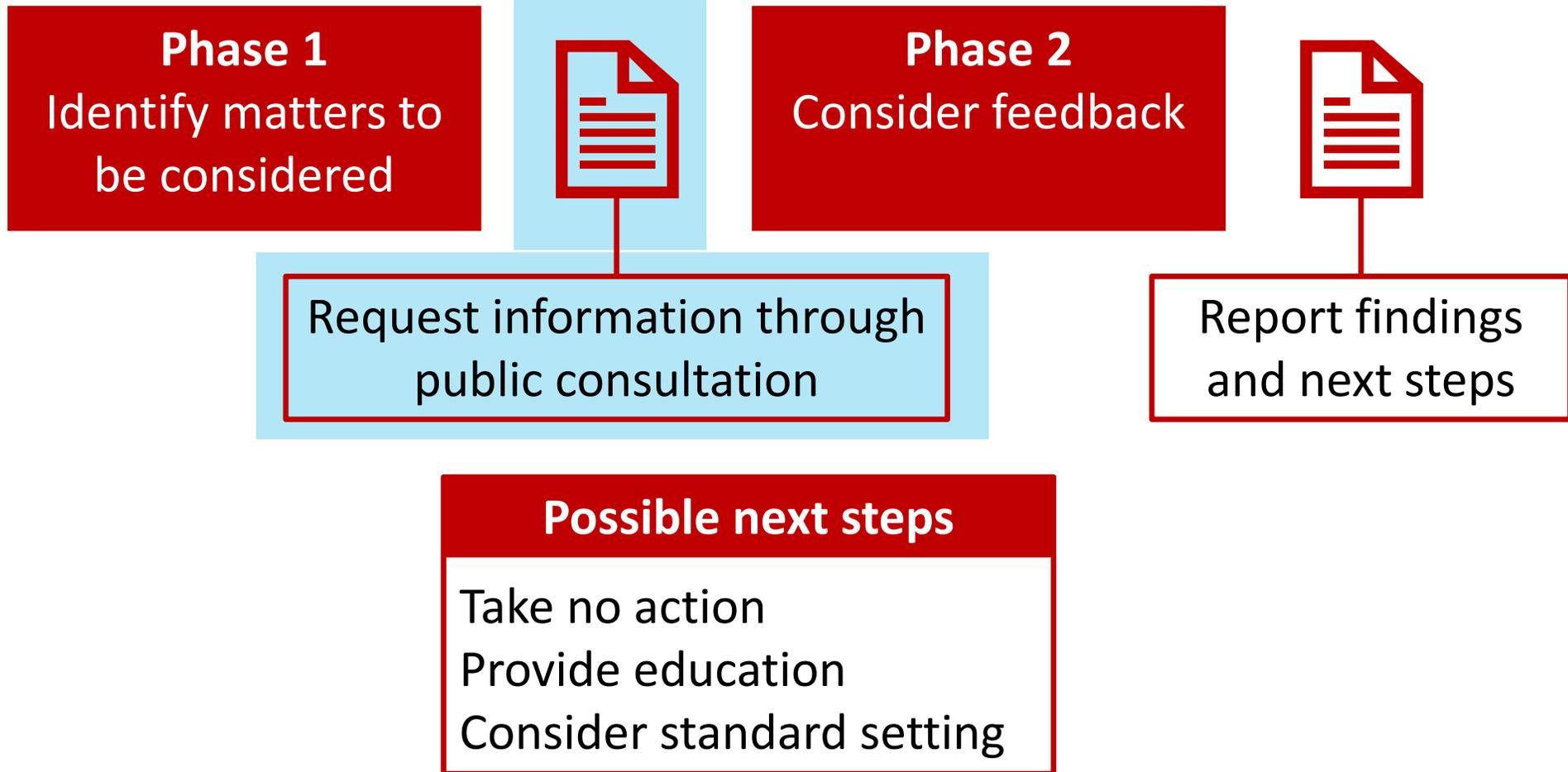
- » The IASB has not issued any guidance specifically for the *IFRS for SMEs* standard
- » The IASB considered it, but noted:
  - » The *IFRS for SMEs* currently applies the equivalent of IAS 39 to financial instruments
  - » That standard is based on the incurred loss model, which reduces the need for forward looking information
  - » The *IFRS for SMEs* standard also provides an undue cost or effort exemption for entities applying fair value
  - » The disclosure requirements for significant judgements and for undue cost or effort remain in place.

# IFRS 9

## *Post Implementation Review*



# PIR Process





# IFRS 9 *Financial instruments*

- » IFRS 9 replaced IAS 39
- » IFRS 9 has three core modules

## **Classification and measurement**

Reflects entities business model and cash flow characteristics

## **Expected credit loss model**

Forward looking approach for more timely recognition of losses

## **Hedge accounting model**

Better link between economics of risk management and accounting



# IFRS 9 PIR

## *Classification and measurement*

- » This PIR will focus on the **classification and measurement requirements** of IFRS 9
- » IASB completed first phase of PIR and published a request for information
- » The request for information published in September 2021 and is open until 28 January 2022
- » In the second phase IASB will consider the responses to the request for information and will present its findings



## IFRS 9 PIR

### *Classification and measurement*

Information requested in the request for information:

- » Section 1: seeks general information on the effects the application of the classification and measurement requirements of IFRS 9;
- » Sections 2–8: seek information on specific areas of the classification and measurement requirements; and
- » Section 9: seeks other information relevant to the post-implementation review of the classification and measurement requirements



# IFRS 9 PIR

## *Classification and measurement*

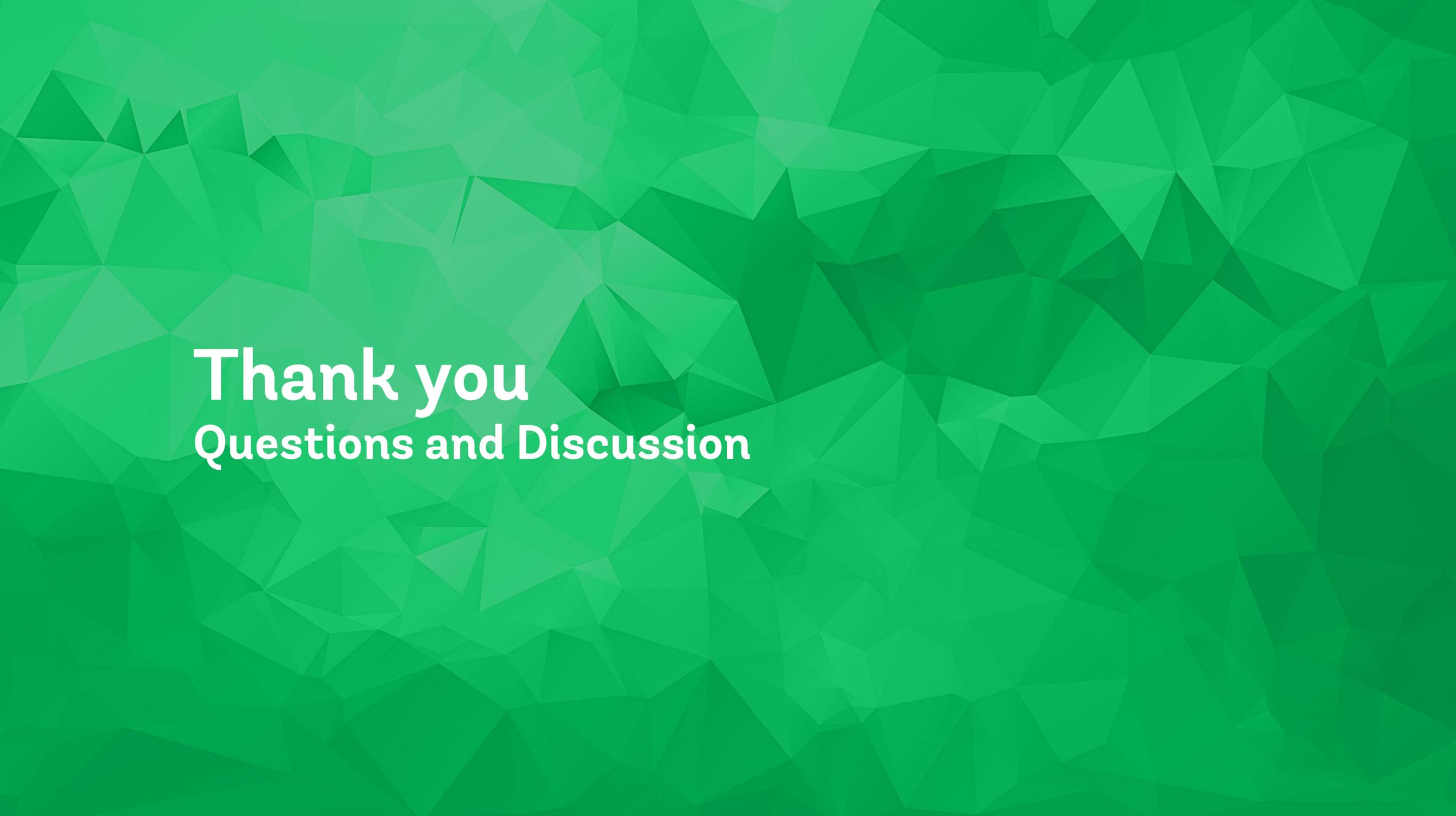
### Sections 2-8

- » Section 2: Business model test
- » Section 3: Contractual cash flow characteristics
- » Section 4: Equity instruments and OCI
- » Section 5: Financial Liabilities and own credit
- » Section 6: Modifications to contractual cash flows
- » Section 7: Amortised cost and effective interest method
- » Section 8: Transition



## *IFRS for SMEs Standard*

- » The IFRS for SMEs standard is not included in the PIR process
- » However, the standard is currently in a review stage (next step in exposure draft)
  - » One of the considerations is whether to maintain the ‘fall back’ to full IFRS for Financial instruments, or
  - » Include the key, simplified elements of IFRS 9 in the IFRS for SMEs with a fall back.
- » The IASB will be asking for comments later next year.

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**Thank you**  
**Questions and Discussion**