

IFRS 9 (and related standards)

Financial Instruments

Darrel Scott

13-14 December 2021

IFRS UPDATE FOR REGULATORS

CFRR 

Centre for Financial
Reporting Reform



 STAREP



This event is co-funded by

 AUSTRIAN
DEVELOPMENT
COOPERATION



 Federal Ministry
Republic of Austria
Finance



Disclaimer

This course contains copyright material of the IFRS® Foundation in respect of which all rights are reserved. Reproduced by Darrel Scott with the permission of the IFRS Foundation. No permission granted to third parties to reproduce or distribute. For full access to IFRS Standards and the work of the IFRS Foundation please visit <http://eifrs.ifrs.org>

The International Accounting Standards Board® (IASB), the IFRS Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting or refraining from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Unless specified otherwise, the accounting requirements that are the subject matter of this presentation are the IFRS Standards as issued by the IASB that are applicable on or after 1 January 2021



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

- 
- » 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.



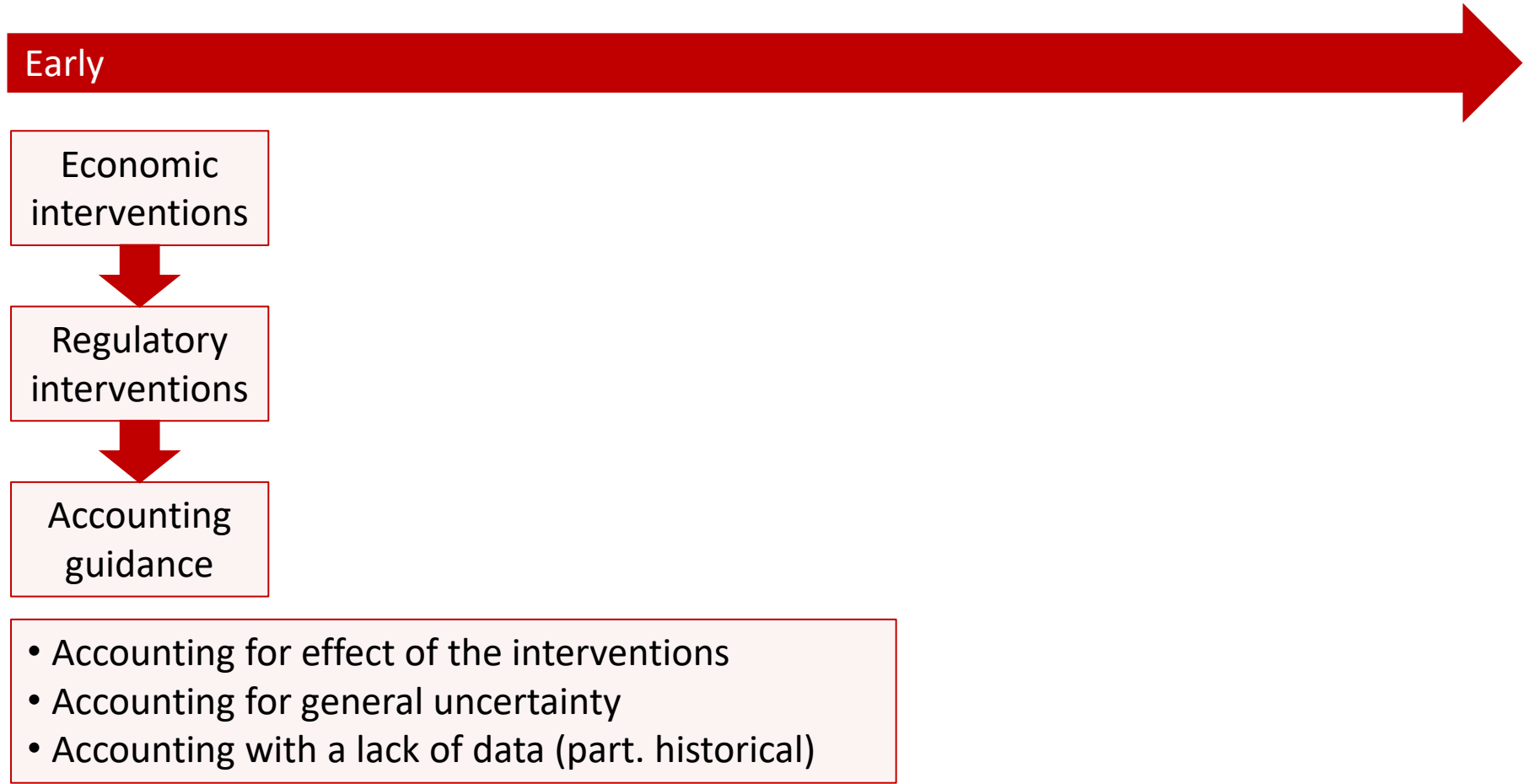
Incentive for regulatory participation

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

- » 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



IFRS for SMEs Standard

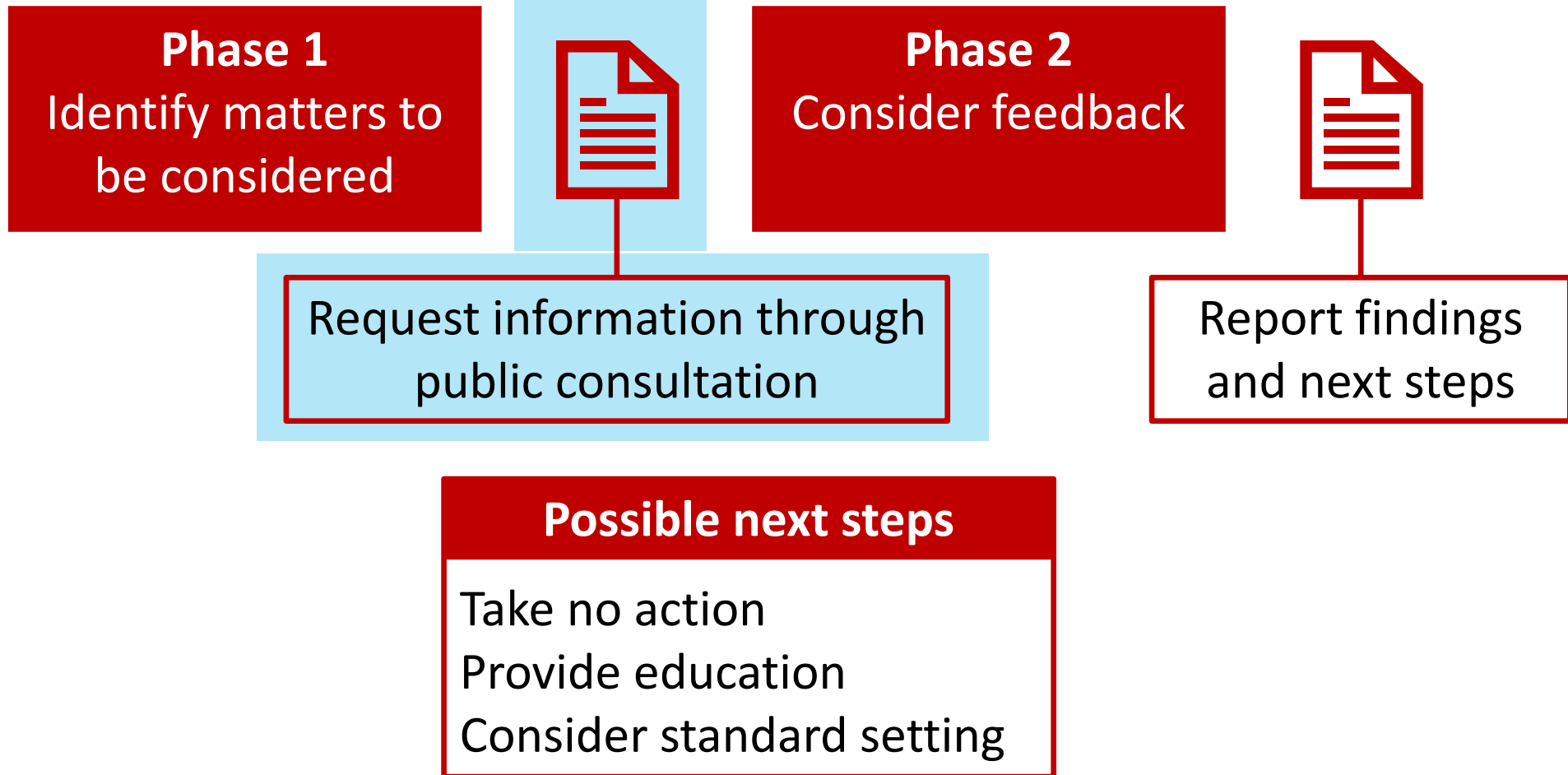
- » The IASB has not issued any guidance specifically for the *IFRS for SMEs* standard
- » The IASB considered it, but noted:
 - » The *IFRS for SMEs* currently applies the equivalent of IAS 39 to financial instruments
 - » That standard is based on the incurred loss model, which reduces the need for 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.

The background is a vibrant green color with a complex, low-poly geometric pattern. The pattern consists of numerous irregular polygons of varying sizes and shades of green, creating a textured, crystalline effect. The text is centered on the left side of the image.

Thank you
Questions and Discussion