IFRS 9 for corporates

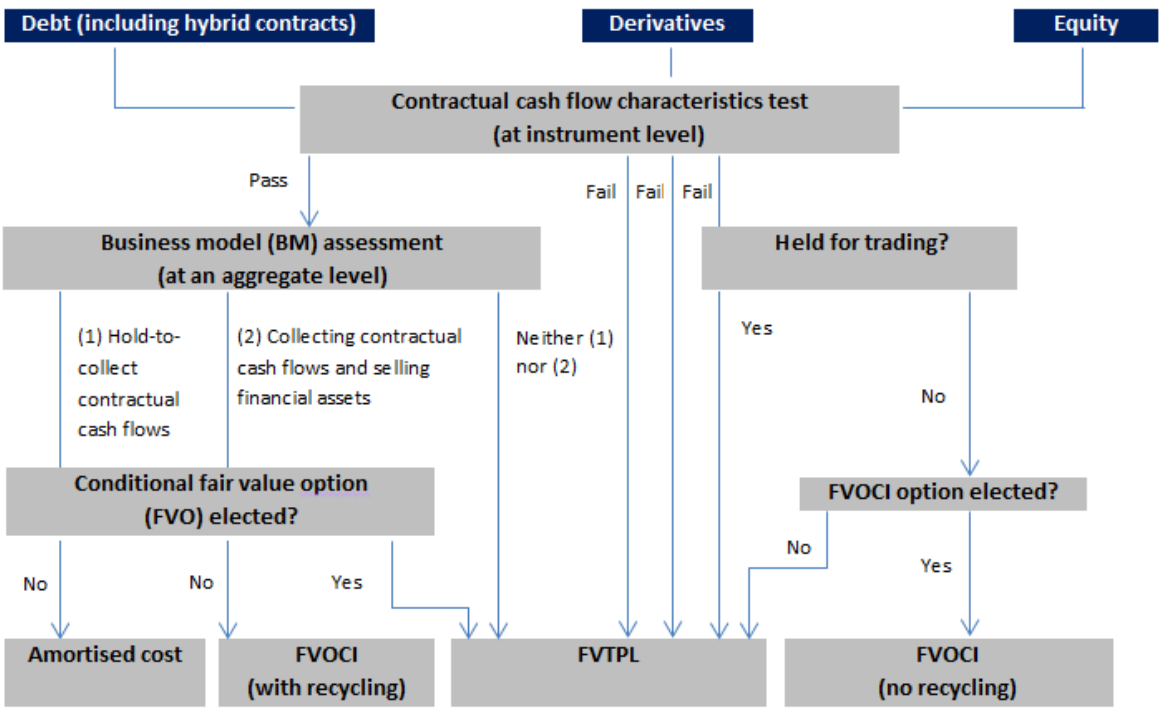
Already in 2014 the International Accounting Standards Board (IASB) issued IFRS 9 – Financial instruments. IFRS 9 is applicable to annual accounting periods beginning on or after 1 January 2018 and changes the classification, measurement, impairment and hedge accounting of financial instruments. The new standard supersedes IAS 39 – Financial instruments: Recognition and measurement. The effect on financial institutions is clearly apparent. However, the changes of the classification of financial assets and the new impairment model affect financial statements of corporate entities just as the new hedge accounting regulations and should not be underestimated. An early assessment will be the key to managing the implementation of this accounting standard.

Relevance for corporates

IFRS 9 is not only affecting banks and other financial institutions. IFRS 9 applies to all financial instruments, i.e. cash and cash equivalents, trade receivables and payables, loans and other financial assets and liabilities.

Scope of IFRS 9

IFRS 9 introduces major changes affecting the accounting of financial instruments. IFRS 9 establishes a principle-based model for classifying financial assets. The classification will be applied by a contractual cash flow characteristics test and the "business model assessment". The qualification for the categories of "Amortised Cost (AC)" or "Fair Value Through Other Comprehensive Income (FVOCI)" requires cash flows which represent payments of principal or interest, only. For the particular financial instruments, which meet these requirements, the second step is applying an assessment of the business model for these financial instruments.



In contrast to the changes in classifying financial assets, the accounting of financial liabilities remains virtually untouched. IFRS 9 changes the impairment of financial instruments. An expected loss model will replace the previous incurred loss model of IAS 39, which was criticized during the financial crisis due to the delayed revealing of credit defaults. Accordingly, the new model establishes impairments as a consequence of increases of credit risks and for expected losses of the future: bad debt provisions are likely to increase and become more volatile.

A further aspect of IFRS 9 is the significant change in the accounting practice for hedge accounting. IFRS 9 enables a broader range of economic hedging strategies. Clearly identifiable and reliably measurable non-financial items can be designated as hedged item. It should be taken into account that considerable disclosures are needed.

How we can support you implementing IFRS 9

Classification model	☐ Analyse, which financial instruments are affected by the new accounting model ☐ Implementation of the new regulations for the particular instruments
Expected loss model	☐ Identify possible adjustments to present impairment policy ☐ Implement new impairment processes
Hedge accounting model	☐ Identify required changes in hedging processes ☐ Identify new potential hedging strategies ☐ Analyse if required information for additional disclosure requirements is available

Although 2018 may seem some way off, the implementation date for IFRS 9 *Financial instruments* has been set because some entities will need significant time to identify and prepare for the impact of the new standard.

In some cases, the standard will require significant system changes or will significantly affect other aspects of operations (e.g. internal controls and processes, Key Performance Indicators, compensation and bonus plans, bank covenants, tax etc.), and, therefore, it is imperative that entities identify any such impacts early on. We may help you to identify and implement accounting processes to comply with the requirements of IFRS 9.

Contact MGI Worldwide's Global IFRS Experts

MGI Worldwide's team of Global IFRS Experts deal with IFRS on a daily basis, share knowledge and best practices, and ensure the correct application of IFRS on a globally consistent basis.

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