Grant Thornton
An instinct for growth™

IFRS 9 - Prepare for Financial Instruments standard changes

Plan for change

The new global financial instruments standard has been issued by the IASB. The new standard, IFRS 9 - Financial Instruments, fundamentally rewrites the accounting rules for financial instruments. It introduces a new approach for financial asset classification, a more forward-looking expected loss model and major new requirements on hedge accounting.

Areas where you might encounter change

The new pronouncements may not only necessitate updates to existing financial accounting policies, procedures and systems, but also affect controls and contracts. Even if accounting policies are not affected, significant new disclosures are required that suggest the need for planning.

We believe that most companies will need to consider making changes in the following areas:

- accounting policies and disclosures;
- processes to develop and incorporate many new management judgments into financial instrument accounting;
- related internal controls that will require updating, if not overhauling, as a result of changes to accounting policies and processes;
- systems to capture, process and report new data;
- income and other taxes;
- classification and measurement of financial instruments;
- impairment; and
- hedging accounting.

Timetable for compliance
IFRS 9 has a mandatory effective date for annual periods beginning on or after **1 January 2018**, with earlier application permitted.

Considerations for change

IFRS 9 will be a significant change and will require substantial efforts from accounting, tax, IT and legal teams. Summary of changes at a glance:

	Current financial instruments requirements (IAS 39)	New financial instruments requirements (IFRS 9)
Classification and measurement of financial instruments	• complex and difficult to apply; • multiple impairment models; • changes in own credit risk presented in P&L for financial liabilities measured at Fair Value Through Profit and Loss (FVTPL); and • strict conditions for reclassification between categories.	• three categories of financial assets; • classification based on business model and nature of cash flows; • option to use FVTPL if eliminates/ substantially reduces accounting mismatch; • changes in own credit risk presented in OCI for FVTPL liabilities; and • reclassification driven by business model objectives.
Impairment	• 'incurred loss' impairment model – only past events are considered; and • delays recognition of credit losses on loans (and other financial instruments).	• 'expected loss' impairment model; • expected credit losses recognised even if no actual loss events occurred; and • lowers the threshold for recognition of full lifetime expected losses.
Hedge accounting	• rules-based approach to assessing hedge effectiveness; • complex and difficult to apply; • both prospective and retrospective effectiveness testing required, which can be time-consuming; and • 80-125% bright line test.	• aligns accounting with risk management activities; • elimination of 80-125% threshold; • no requirement to retrospectively assess effectiveness; • broader range of hedged items including risk components; • introduces concept of rebalancing; and • enhanced disclosures.

Our integrated approach

Grant Thornton can assist you with implementation of the new financial instruments standard through our experienced professionals who will focus on your industry.

Our services include a variety of offerings, ranging from an initial impact assessment to help you focus implementation efforts, through full-scale implementation using our phased implementation methodology tailored for your needs. We can make recommendations to your implementation team for their consideration and identify potential opportunities to assist management with staying on track with the demands of the new standard for management's consideration.

Click to view Grant Thorntons IFRS 9 publications

- IFRS 9 'Financial Instruments' is now complete
- Get ready for IFRS 9 - The impairment requirements
- Get ready for IFRS 9 - Classifying and measuring financial instruments

Contact

Fergus Condon
Partner, Financial Accounting and Advisory Services
T +353 (0)1 680 5610
E fergus.condon@ie.gt.com

Olivia Regan
Director, Financial Accounting and Advisory Services
T +353 (0)1 680 5641
E olivia.regan@ie.gt.com

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.

www.grantthornton.ie #GTFAAS Grant Thornton Ireland

Methodology

Our financial instruments process methodology is collaborative, with a focused project management approach. Grant Thornton and your team will operate seamlessly together and communicate regularly throughout the process to provide you with the most comprehensive service. The four phases of our methodology, from planning through execution, allow us to demonstrate value to your organisation through our comprehensive approach.

PLAN

Approach
- workshop designed to understand impacts of new standard across the organisation;
- financial instruments evaluated with initial technical accounting impact identified;
- organisation processes reviewed and desired new state discussed;
- tax changes and reporting requirements identified; and
- milestone-level implementation plan finalised for all organisational groups. affected.

Output
- action plan graded red, amber green in terms of priorities.

ASSESS

Approach
- detailed assessment completed on all financial instruments and verified against agreements and transaction. This should include an impairment review under the new financial instruments requirements, as well as, a review of any hedge accounting (if applicable);
- changes drafted and reviewed with internal and external auditors;
- internal controls changes identified and prepared for internal review; and
- tax changes prepared.

Output
- impact assessment checklist; and
- detailed technical paper.

DESIGN

Approach
- design process and system changes necessary to meet new accounting standard;
- obtain agreement with internal and external auditors on technical accounting impact;
- identify tax reporting changes required to meet new standards; and
- plan communication around changes and impact on the organisation.

Output
- revised controls/policy documents; and
- accounting impact schedule.

EXECUTE

Approach
- implement and manage accounting, process and system changes;
- build a governance model to ensure that changes are successfully implemented and monitored; and
- manage communications of change drivers and related impacts.

Output
- IFRS 9 compliant accounting process.