Effective 1 January this year, IFRS 9 has replaced IAS 39, the previous guidance on the Classification & Measurement of financial Instruments. IFRS 9 was issued in July 2014 – essentially, accountants have had over 3 years to grapple with the requirements of the new standard. So how ready are you?

The changes mainly affect the accounting for financial assets. The accounting for financial liabilities remains substantially the same.

The changes affect three main areas – Classification and Measurement of Financial assets, Impairment of financial assets and Hedge accounting.

Entities now have three classification categories for financial assets as compared to four in IAS 39. These three categories are i) amortised cost, ii) fair value through other comprehensive income (‘FVOCI’) and iii) fair value through profit or loss (‘FVPL’).

The classification of financial assets is now driven by the entity’s business model and cash flow characteristics of the instruments and will affect how income is recognised. IFRS 9 provides detailed guidance on these. No more tainting for former ‘Held to Maturity’ instruments. Occasional sales will not preclude amortised cost classification.

All equity instruments are to be classified as at FVPL, however companies can take an irrevocable election to show changes in equity instruments at fair value through other comprehensive income. Irrevocable means this election cannot be reversed in future. Gains and losses on FVOCI equity instruments cannot be recycled.

IAS 39

IFRS 9

Summary of key changes.

IFRS 9 will affect all companies in one way or another and is not just for the financial services industry. Entities outside financial services need to be concerned as well. There are additional disclosures that will affect companies in each industry depending on extent of investments in financial instruments.

Under IFRS 9, hedge accounting has been simplified and aligns better with the company’s risk management approach. More companies may now apply hedge accounting given the simplifications.

IFRS 9 introduces a single, forward-looking ‘expected loss’ impairment model for all debt instruments. The expected loss model is a three stage approach based on the change in credit quality of financial assets. There are however operational simplifications allowed by the standard for financial assets with low credit risk which do not differ significantly from current practice but lay more emphasis on future projections and expectations.

The Fair values of all unquoted equity investments will need to be determined. IFRS 9 removes the option to carry unquoted equity at cost.
### 3 Transition options

**IFRS 9** will be applied retrospectively. Two transition options are allowed by the standard as follows:

**Full retrospective application:** This is the application of IFRS 9 to each prior reporting period presented in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, subject to the following:

- The standard will not be applied to items that have previously been derecognised at the date of initial application;
- This option shall be adopted if, and only if, it is possible to do so without the use of hindsight.

**Modified retrospective application:** This transition approach would recognise the cumulative effect of initially applying this standard at the date of initial application. No restatement of prior period figures. Instead, recognise in opening retained earnings, any difference between the previous carrying amount in accordance with IAS 39 and the carrying amount at the beginning of the annual reporting period on initial application.

Entities need to weigh the cost-benefits of each before they choose an option. Most companies are likely to choose the Modified retrospective approach though to avoid the stress of restating prior years.

### 4 What you should be doing now

**So IFRS 9 is already effective, what should you be doing (or have already done)?**

**You should have completed a detailed impact assessment to identify necessary accounting change and understand the business impact and notified stakeholders within and outside the organisation.** Key considerations would be any changes to ratios, borrowing covenants, contracts and reporting.

**You should have selected a transition option.**

**Based on your assessments, you should have or be looking to establish new policies as well as define business and technical requirements to effect the change and modify existing IT architecture if necessary.**

**Put in place a system to capture required information as well as put internal controls in place around data gathering.**

**Engage with auditors and agree assumptions made and decisions taken on adoption of IFRS 9. Also agree template disclosures with auditors.**

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### Editor’s note

In 2014, the International Accounting Standards Board issued the IFRS 9- Financial Instruments as a complete standard, incorporating previous amendments including provisions on loss impairment, changes to the classification and measurement of financial assets. Subject to early adoptions permitted in certain cases, the Standard became effective for reporting periods beginning on or after 1 January 2018. The import and implications of the new standard is x-rayed to guide members on complying with the requirements of the standard.