KPMG

IFRS 9 for Corporates

Finance and Treasury Management

KPMG's Finance and Treasury Management Team and Accounting Advisory Services assists you in analyzing and implementing the new standard.

The issue

How corporates account for financial assets will change from 1 January 2018, when the new financial instruments standard, IFRS 9, comes into effect. The challenges reach beyond accounting and may require changes to systems and processes to comply with the new requirements.

IFRS 9 consists of three main topics which have to be addressed, analyzed and implemented individually:

new rules for classification and measurement of financial assets

new impairment model based on expected credit losses and forward-looking information

new hedge accounting model that is aligned with risk management

The transition from IAS 39 to IFRS 9 can be delicate and time-consuming.

How you might be affected

There will be major changes to how you classify and measure financial assets as well as how you assess them for impairment. The new IFRS 9 impairment model is forward-looking, being based on expected credit losses (ECLs) rather than actual losses incurred. More opportunity may also arise for corporates to engage in hedging activities. IFRS 9's new hedge accounting model is more closely aligned with an entity's risk management strategies, and offers some simplifications to hedge accounting. Extensive new disclosure requirements will apply – systems and control changes may be necessary to capture the required data.

Classification and Measurement

How an investment is classified and measured will now depend on its contractual cash flows as well as how it is managed by the entity. You will need to review the contractual terms of each of your investments as well as analyse and document the business model for managing those investments.

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new standard defines how to identify and calculate expected credit losses either for the next 12 months or the overall lifetime of the instrument. Investments (except for those in equity instruments) are within the scope of the new impairment model. Impairment losses are recognised based on 12-months' ECLs for investments that have not suffered a significant increase in credit risk, and based on lifetime ECLs for those that have. Bad debt provisions for trade receivables are likely to be larger and more volatile, and are measured based on lifetime if no significant financing component exists. It will be necessary to re-design the provisioning methodology for trade receivables in order to comply with the new standard. In this, it might be challenging to identify and aggregate expected losses for trade receivables across all group entities. Ideally, a concept should be developed to determine how additional data required for measuring impairment can be retrieved across the entire group and which adjustments are required to processes, IT systems and internal controls.

Hedge Accounting

IFRS 9 introduces a new hedge accounting model that is aligned more closely with risk management, and is available to a broader range of transactions (e.g. related to commodity price risks). The new model is more principles-based: the bright-line effectiveness test under IAS39 falls away, and a more judgemental approach is required in the assessment of qualifying, rebalancing and discontinuing hedge accounting. Switching to the new hedging model will require more judgement, revised processes and controls.

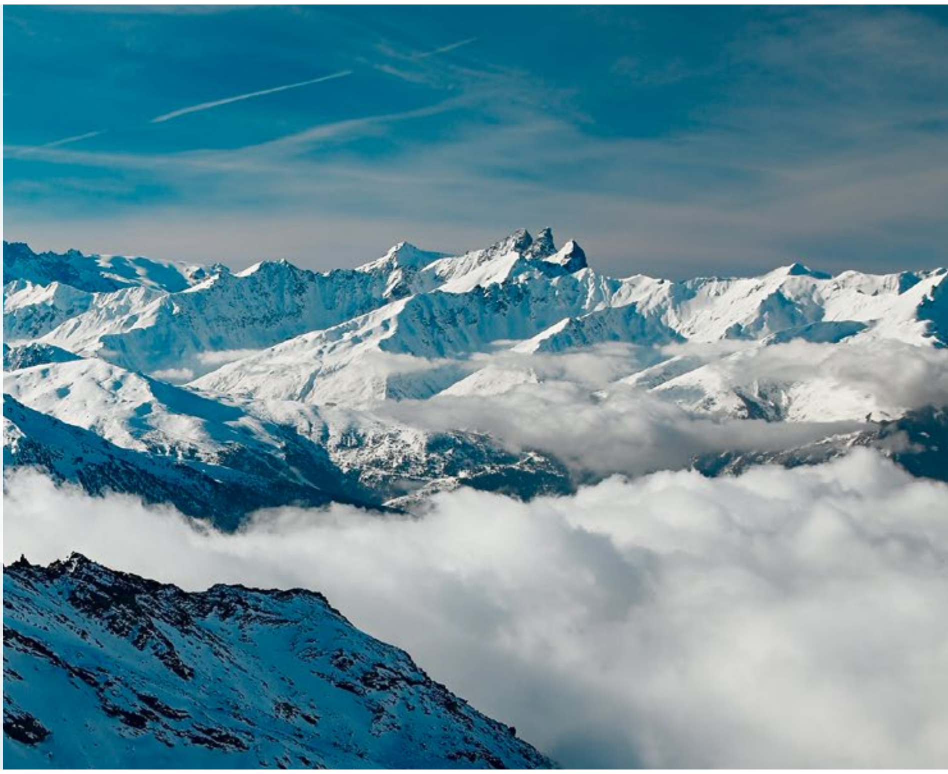
Our service includes the identification of gaps in calculation logic, booking routines and accounting ledgers, the development and implementation of new processes and areas of responsibility as well as the conversion of internal and external reporting. Furthermore, we will provide informed insights and options for more automated solutions in treasury management systems in view of IFRS 9.

Positioned at your best

Due to our long-standing experience in Finance and Treasury Management and our focus on financial instruments accounting at national and international clients, we provide high quality advice and the most efficient solutions tailored to your situation.

How can KPMG help?

Our Finance and Treasury Management specialists offer a full range of technical support, both for the initial design and for the ongoing implementation of all areas of IFRS 9. We can set up stakeholder workshops, develop implementation concepts, provide benchmarks, industry standards and perform specific reviews and assurance.



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