KPMG

IFRS 9 for corporates

What's the impact on your business?

May 2016

From 2018, the new financial instruments standard, IFRS 9, will apply for all companies, not just financial institutions.

The new standard brings major changes to how you classify financial assets and record impairment. It also brings a new hedge accounting model that is aligned with risk management and extensive new disclosures.

IFRS 9 will affect…

Investments

- Classification and measurement may change due to new criteria that require an assessment of the contractual cash flows and how the investment is managed.
- The new impairment model, which is based on expected credit losses and forward-looking information, will increase provisions and may require new processes and controls.

Trade and lease receivables and contract assets

- Bad debt provisions are likely to increase and become more volatile.

Hedge accounting

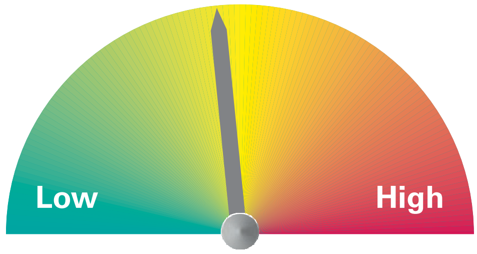
- Hedge accounting is potentially available for a broader range of hedging strategies.
- Switching to the new hedging model will require more judgement and revised processes and controls.

Disclosures

- Extensive new disclosures are required.
- System and controls changes may be necessary to capture the required data.

The challenges of IFRS 9 reach beyond accounting and may require changes to systems and processes.

Determining the impact



Investments

Potential impact

- The classification of financial assets as measured at amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI) will depend on each investment's contractual cash flows and how the entity manages groups of investments.
- All investments in equity instruments – including unquoted shares – will be classified as FVTPL subject to an option to present at FVOCI if the investment is not held for trading.
- Impairment losses must be recognised for all investments in debt securities not classified as FVTPL. These reflect probability-weighted estimates of expected credit losses (ECLs) based on historical experience and forward-looking information: 12-month ECLs for assets that have not suffered a significant increase in credit risk; lifetime ECLs for those that have.

Actions to consider

- Review the contractual terms of investments.
- Analyse and document the business models for managing investments.
- Review credit risk management processes and data availability.
- Assess whether credit risk management systems can track changes in credit risk since initial recognition.
- Design and test new impairment methodologies.

Trade and lease receivables and contract assets

Potential impact

- The new classification model must be applied to all receivables. Trade receivables will generally meet the criteria to be held at amortised cost, but watch out for the impact of securitisation or factoring arrangements and more complex contractual terms.
- Bad debt provisions are likely to be larger and more volatile. Impairment of trade receivables and contract assets without a significant financing component will be based on lifetime ECLs.
- For trade receivables or contract assets with a significant financing component, and lease receivables, an entity may choose to either apply the general approach or recognise lifetime ECLs at all times.

Actions to consider

- Review contract terms, and securitisation and factoring arrangements.
- Redesign impairment methodology to comply with new standard.
- Evaluate impacts of different accounting policy choices.
- Review management information under the current requirements and assess how it could be aligned with the new classification and measurement, and impairment requirements.

Hedge accounting

Potential impact

- IFRS 9 allows an entity to switch to a new hedge accounting model that is aligned more closely with risk management. Under the new model, more risk management strategies (e.g. related to commodity price risks) are likely to qualify for hedge accounting.
- The new model is more principles-based: the bright-line effectiveness test under IAS 39 falls away and a more judgemental approach is required in the assessment of qualifying, rebalancing and discontinuing hedge accounting.

Actions to consider

- Assess whether to adopt the new IFRS 9 hedging model or remain with IAS 39 hedge accounting.
- Assess and quantify the impact of applying the IFRS 9 hedging model to existing and new hedging relationships to determine the effort and changes required to implement.

Disclosures

Potential impact

- Extensive new disclosures are required to explain how judgement is exercised as well as quantitative disclosures about financial assets.
- Extensive new disclosures are also required for those risk exposures to which an entity applies hedge accounting.

Actions to consider

- Assess current systems to identify data gaps that need to be filled to meet the new disclosure requirements.

How KPMG can help

A robust assessment phase is critical to laying the framework for a successful project, and it is important to start the assessment early to provide flexibility during the implementation phase.

Activities	Actions	Deliverables
Accounting diagnostic	– Identify possible modifications to current impairment methodology and processes – Identify new key controls or reconciliations to be performed	– Gap matrix, heat map and contract review summaries – Calculation of ECLs using KPMG's Global Credit Loss Accounting Solution (gCLAS)
Process and information gap analysis	– Identify possible changes to hedging policies relevant for your organisation – Identify additional data requirements to meet new disclosure requirements – Review internal management information arising from existing requirements and assess how these could be aligned with the new classification and measurement categories and ECL model	– Business requirements document, process and information gap analysis report – Hedge documentation and effectiveness tests
Broader impact evaluation	– Analyse future volatility – Provide insight into emerging industry/ peer practice issues	– Final gap matrix and heat map, implementation roadmap

We have helped a number of clients to understand the impact of the new standard and how to implement the necessary changes. These projects have given us a detailed understanding of how companies will be affected and the steps that they can take now to help ease transition to IFRS 9. The following are just a few examples of how our cross-functional teams of experts have helped clients with the accounting and the operational challenges.

Client	How we helped
A German automotive business	We helped our client with a detailed quantitative analysis of impairment models and assisted with the selection of an appropriate treasury management system.
A global shipping organization	We assessed the client's treasury management systems and accounting and IT environment to identify any potential IFRS 9 implementation issues.

Contact us

If you have any concerns about the impact of IFRS 9, or any other accounting issues, please speak to your usual KPMG contact or any of the following.

Chris Spall
Global IFRS Financial Instruments Leader
T: +44 20 7694 8445
E: chris.spall@kpmgifrg.com

Markus Kreher
Global Leader, Accounting Advisory Services
T: +49 89 9282 4310
E: markuskreher@kpmg.com

Americas
Reza van Roosmalen
T: +1 212 954 6996
E: rezavanroosmalen@kpmg.com

Dilshad Hassen
T: +1 416 777 8978
E: dhassen@kpmg.ca

Asia-Pacific
Reinhard Klemmer
T: +65 6213 2333
E: rklemmer2@kpmg.com.sg

Tamami Okawa
T: +81 3 3548 5107
E: Tamami.Okawa@jp.kpmg.com

Europe, Middle East and Africa
Colin Martin
T: +44 20 7311 5184
E: colin.martin@kpmg.co.uk

Venkataramanan Vishwanath
T: +91 22 3090 1944
E: vv@kpmg.com

kpmg.com/ifrs

Publication name: *IFRS 9 for corporates: What's the impact on your business?*

Publication date: May 2016

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG International Standards Group is part of KPMG IFRG Limited.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

KPMG International Cooperative ("KPMG International") is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.