



IFRS 9



Financial instruments for corporates – Are you good to go?

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kpmg.com/ifrs

Are you good to go?

IFRS 9 will change the way many corporates account for their financial instruments. You'll need to consider the new requirements for...

**Classification and
measurement**

Impairment

**Hedge
accounting**

To help you drive your implementation project to the finish line, we've pulled together a list of key considerations that many corporates need to focus on.



**For each of the following,
documenting your analysis
and the conclusions drawn
will be essential**

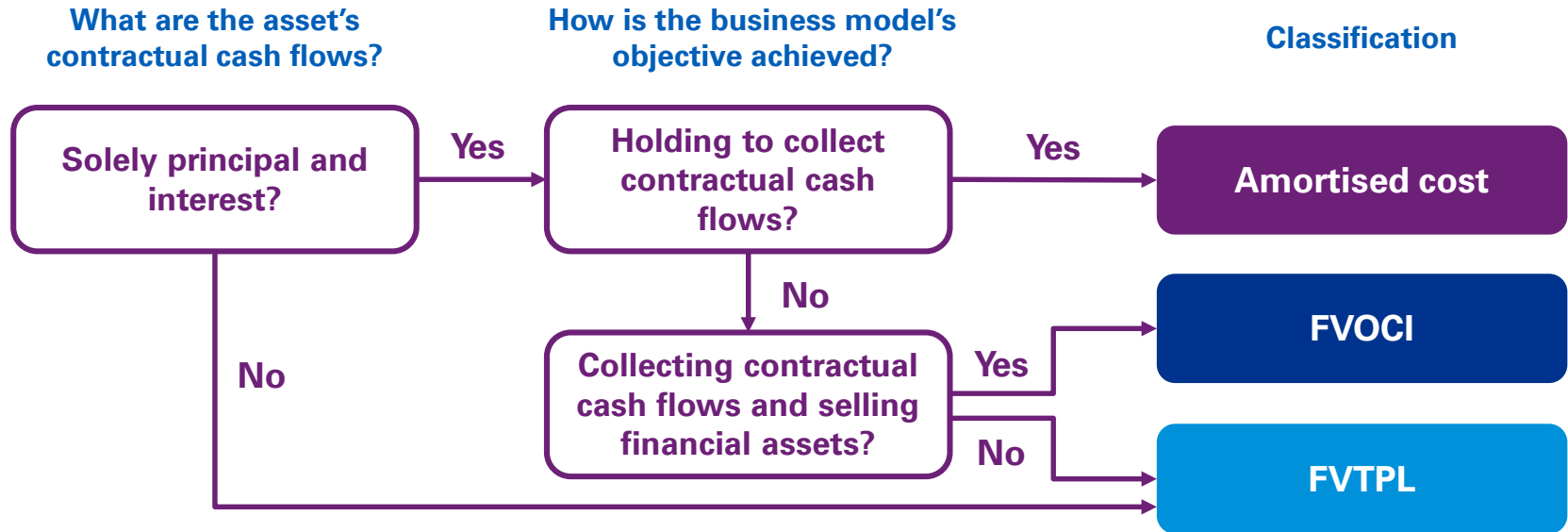




Classification and measurement

Classification

How will you classify your trade receivables and debt investments?



Business model

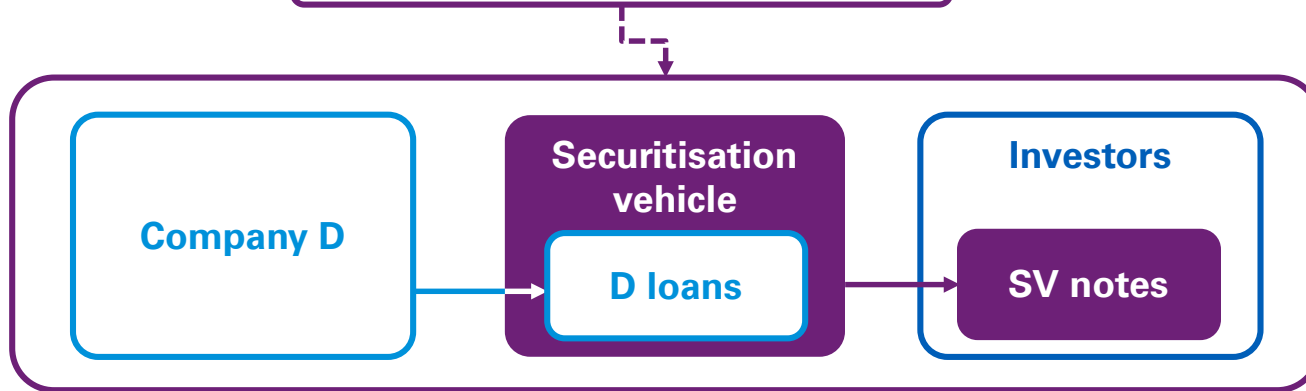
Have you determined the business model at a level that reflects how groups of financial assets are managed together?

Think about...

- **Objectives:** Are collecting contractual cash flows and/or selling financial assets integral to the business model?
- **Sales:** What are the actual and expected frequency, value and timing?
- **Performance:** How is it evaluated and reported?
- **Risks:** How are they managed?
- **Compensation:** How are managers incentivised?

Factoring and securitisation

Do you sell trade receivables in factoring agreements or sell loans in **securitisation arrangements**?

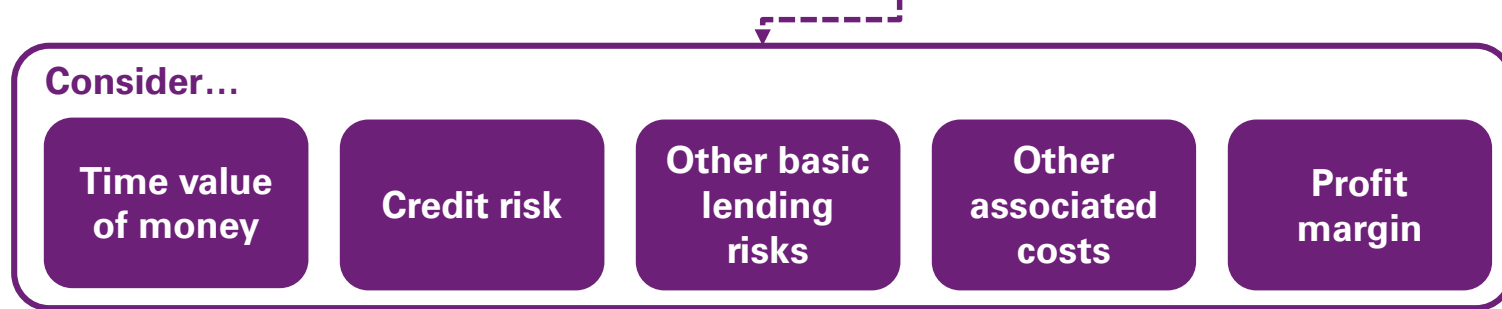


Think about...

Consolidated vs separate financial statements | Guarantees given to the factor

Assessing the SPPI criterion

Do the asset's contractual terms give rise to cash flows that are SPPI – solely payments of principal and **interest?**



Remember...

- Embedded derivatives are not separated from financial assets
- Exposure to risks or volatility unrelated to a basic lending arrangement is not SPPI

Prepayment features

Do any prepayment features meet the SPPI criterion?

A contractual term meets the criterion if...



it permits or requires prepayment at an amount substantially representing unpaid principal and interest

Remember...

- The amount can include reasonable compensation for early termination
- There's an exception for certain prepayment features at par

Other features

Do other features in the contract mean that the SPPI criterion is not met?

Consider...



**Non-recourse
loans**



**Extension
features**



**Modified time
value of money**

Equity investments

Does your accounting policy meet IFRS 9's requirements?

✓ You'll need to...

Measure non-trading investments at FVTPL, unless you make an irrevocable policy choice on initial recognition to measure them at FVOCI

Measure all other equity investments at FVTPL

✗ You can no longer...

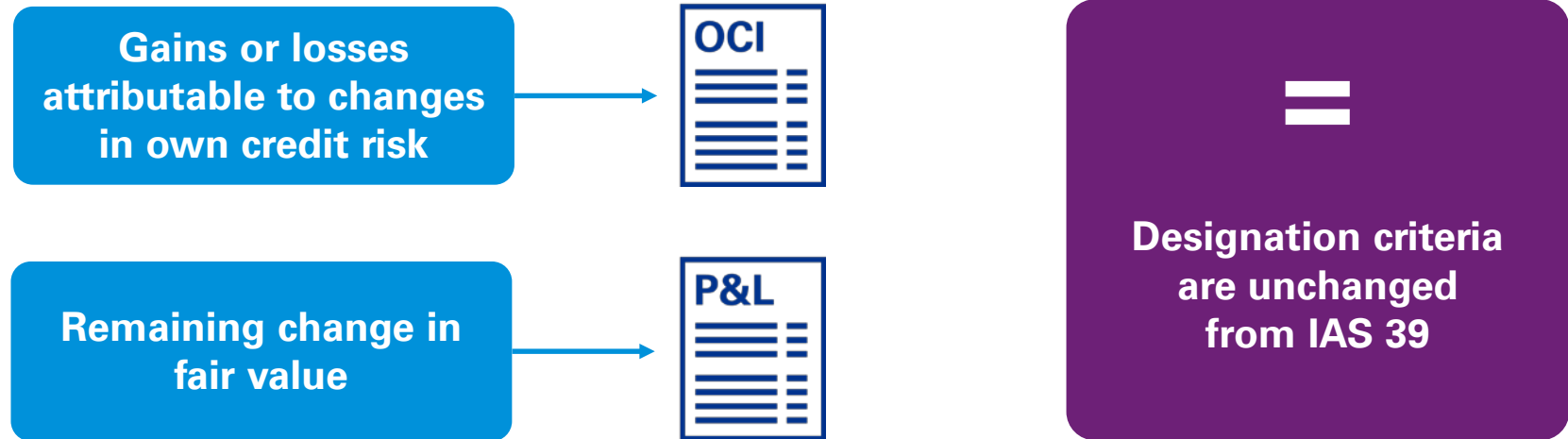
Measure investments at cost

Recognise impairment in profit or loss on FVOCI investments

Reclassify gains or losses on FVOCI equity instruments

Financial liabilities designated at FVTPL

Do you know how new rules for presenting gains or losses attributable to own credit risk will affect your financial statements?



Modification or exchange of financial liabilities

Do you have modifications or exchanges of fixed rate financial liabilities that do not result in derecognition?

✓ You'll need to...

Recalculate amortised cost

Discount the modified contractual cash flows using the original effective interest rate (EIR)

and

Recognise any adjustment in profit or loss

Remember...

This is a change from current practice | Retrospective application is required



Impairment

Scope of impairment requirements

Have you identified all the instruments that are subject to the impairment requirements?

✓ **In scope**

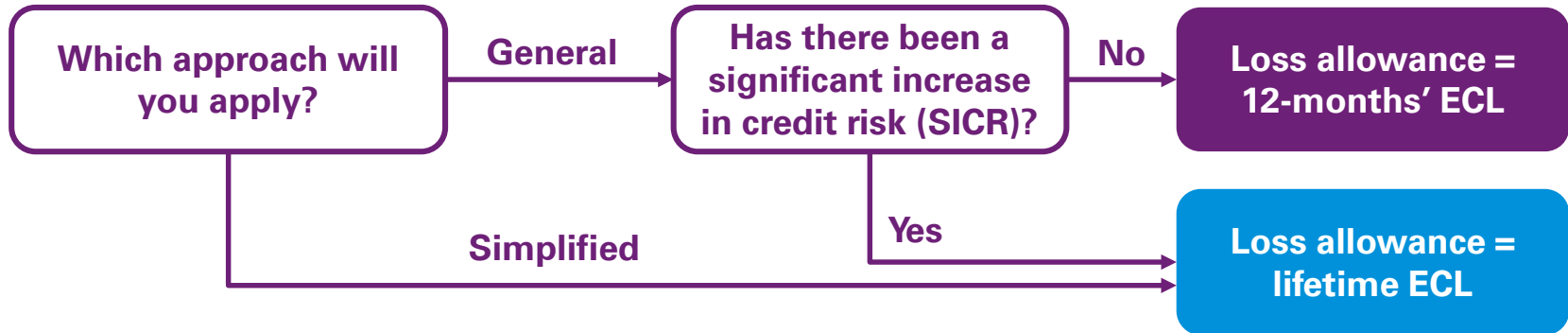
- **Debt instruments measured at amortised cost or at FVOCI – e.g. trade receivables**
- **Financial guarantees and loan commitments not measured at FVTPL**
- **Lease receivables**
- **Contract assets in the scope of the revenue standard – IFRS 15**

✗ **Out of scope**

- **Equity investments**
- **Financial instruments measured at FVTPL**

Simplified approach to measuring ECL

Will you choose to extend the **simplified approach** for measuring ECL?



Choice applies to...

Trade receivables and contract assets with a significant financing component | Lease receivables

Practical expedient

Will you use a **provision matrix** to measure ECL for trade receivables?

Example

Loss rate	Age analysis: days past due				
	Current	1-30	31-60	61-90	>90
IFRS 9	0.3%	1.6%	3.6%	6.4%	10.5%

Based on:

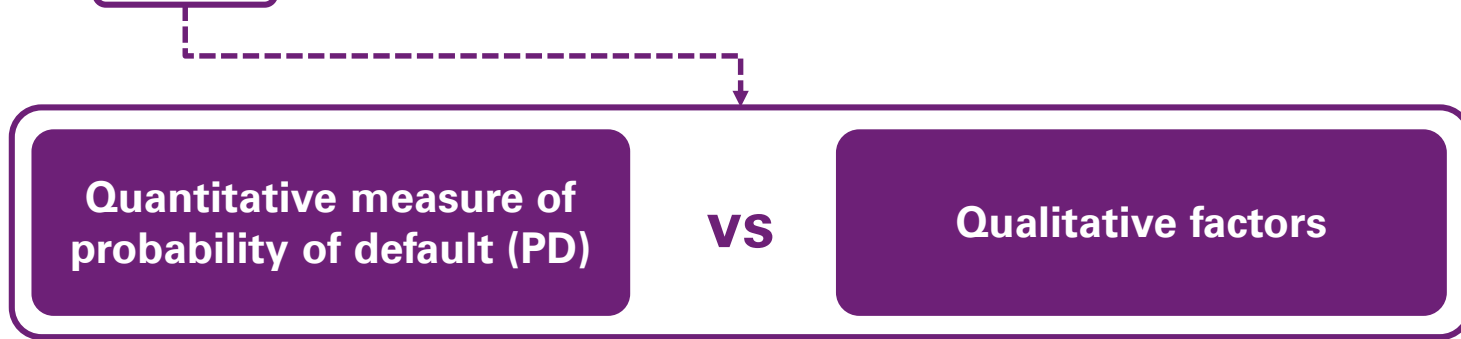
- Historical credit loss exposure
- Adjustment for current conditions and forward-looking estimates

Remember...

All receivables balances need an ECL provision, including those in the current column

Assessing significant increase in credit risk

If you are applying the general approach, have you designed the **criteria** for assessing a SICR for each asset type?



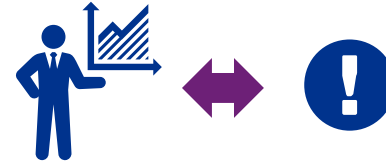
Remember...

Low credit risk exception | '30 days past due' rebuttable presumption

Definition of default

Have you defined 'default' for assessing SICR and measuring impairment where relevant?

The definition should be consistent with that used for internal credit risk management



Rebuttable presumption that default does not occur later than 90 days past due

Measuring expected credit losses

What data and analysis will you use for measuring ECL for different asset types?

Probability weighted

Unbiased and probability-weighted amount

Present value

Discount rate = Original EIR or an approximation

Cash shortfalls

Cash flows due under the contract less cash flows you expect to receive

Remember...

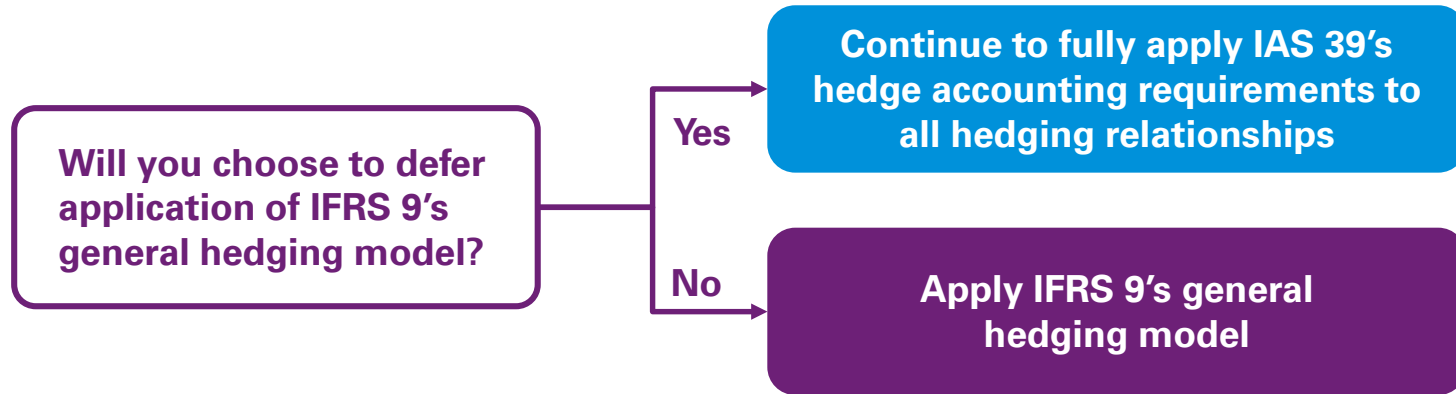
Incorporate forward-looking economic scenarios



Hedge accounting

Accounting policy

Will you adopt IFRS 9's hedge accounting requirements or continue to apply IAS 39?



Remember...

You can choose to defer until the standard resulting from the IASB's dynamic risk management project is completed

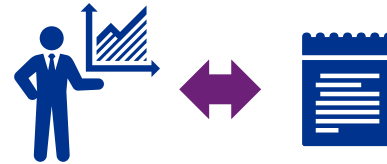
Alignment with risk management objectives

Have you **formally documented** the risk management strategy and objective for undertaking the hedge?

Hedge documentation should...

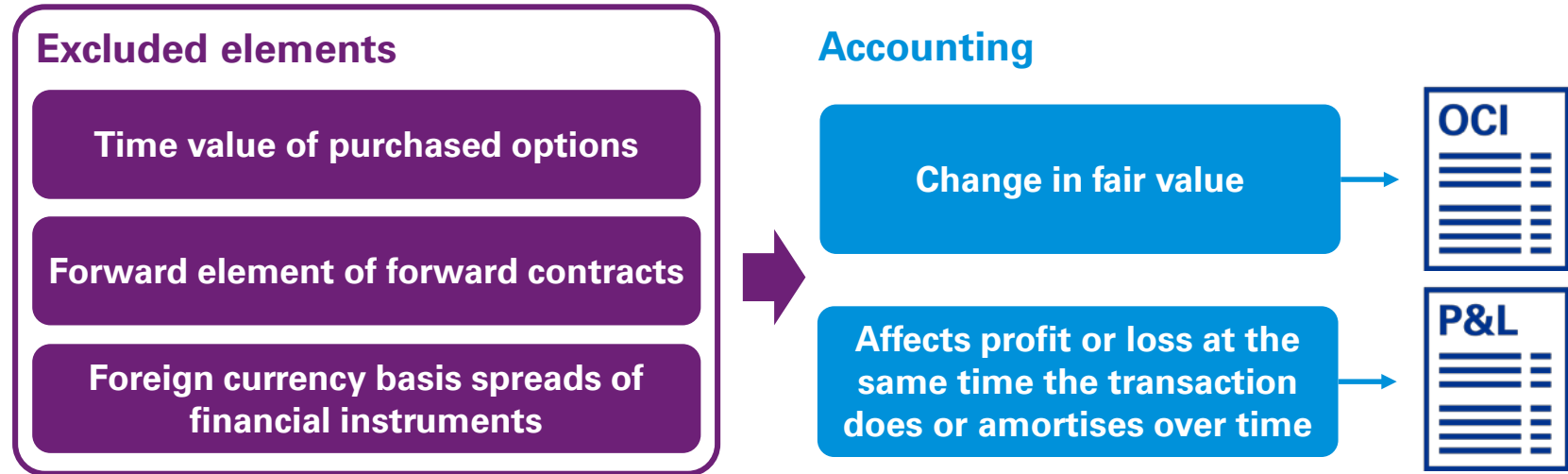
Demonstrate how the hedge relationship is more closely aligned with the actual risk management objective

Include an analysis of sources of hedge effectiveness



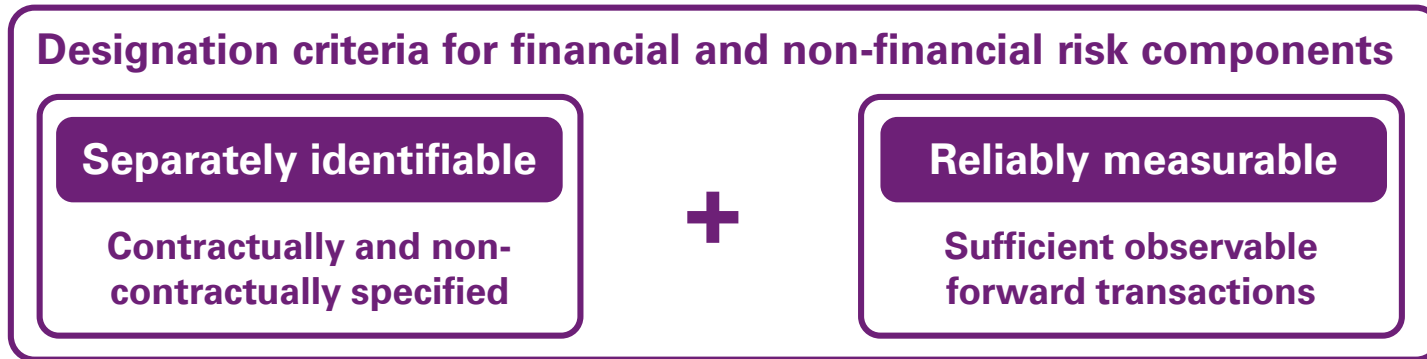
Costs of hedging

Have you considered the 'costs of hedging' elements that may be excluded from certain designated hedging instruments?



Risk components

Have you determined whether any risk components may be designated as hedged items?

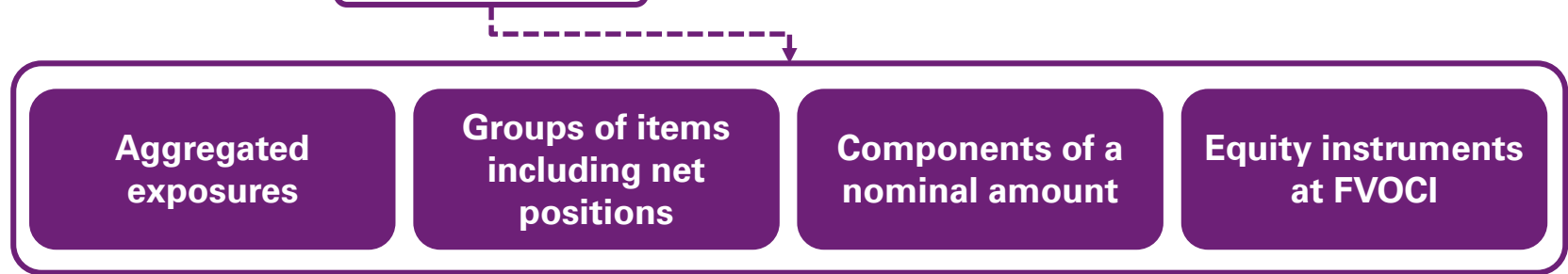


Think about...

Particular market structure the risk relates to | Location of hedging activity

Hedged items

Have you considered what additional exposures may qualify as **hedged items**?



Assessing hedge effectiveness

Have you updated your systems, tools and documents to meet the **hedge effectiveness requirements**?

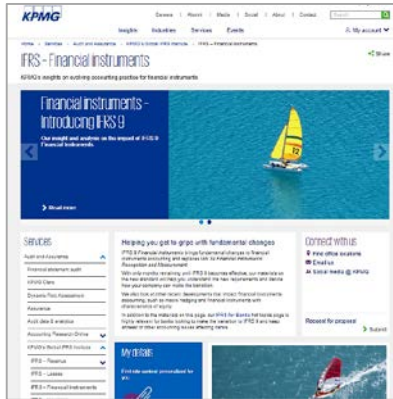




Transition and disclosures

Transition requirements

Is your implementation plan aligned with the transition requirements?



Use the helpful guidance in our *First Impressions and Insights into IFRS* publications

Visit kpmg.com/ifrs9



There are significant exemptions from restating comparatives and retrospective application

Disclosure requirements

Have you identified the **additional information and processes** needed to meet the disclosure requirements?



Read our *Guide to annual financial statements – IFRS 9 appendix*



You'll need to provide specific transitional disclosures and more detail about credit risk management and hedge accounting



Checklists and next steps

Checklist (1/2)

Have you...?	☑	Have you...?	☑
Determined how you will classify your trade receivables and debt investments ?	☐	Checked that your accounting policy for equity investments meets IFRS 9's requirements?	☐
Assessed whether collecting contractual cash flows and/or selling financial assets are integral to your business model ?	☐	Assessed what the effect of applying the new rules for presenting financial liabilities designated at FVTPL will be?	☐
Considered the impact of factoring or securitisation arrangements ?	☐	Determined whether you have modifications or exchanges of fixed rate financial liabilities that do not result in derecognition?	☐
Reviewed contractual terms to assess whether cash flows are SPPI ?	☐	Identified all the instruments that are subject to the impairment requirements ?	☐
Considered whether prepayment features meet the SPPI criterion?	☐	Decided whether you will extend the simplified approach to measure ECL ?	☐
Determined whether other contract features mean that the SPPI criterion is not met?	☐	Decided whether you will use the practical expedient to measure ECL for trade receivables?	☐

Checklist (2/2)

Have you...?	<input checked="" type="checkbox"/>	Have you...?	<input checked="" type="checkbox"/>
Designed the criteria for assessing a SICR for each asset type under the general approach?	<input type="checkbox"/>	Considered the ' costs of hedging ' elements that may be excluded from certain designated hedging instruments?	<input type="checkbox"/>
Defined 'default' for assessing SICR and measuring impairment where relevant?	<input type="checkbox"/>	Determined whether any risk components or additional exposures may qualify, or be designated, as hedged items ?	<input type="checkbox"/>
Considered what data and analysis you will use for measuring ECL for different asset types?	<input type="checkbox"/>	Updated your systems and documents to meet the hedge effectiveness requirements ?	<input type="checkbox"/>
Decided whether to adopt IFRS 9's hedge accounting requirements ?	<input type="checkbox"/>	Aligned your implementation plan with the transition requirements ?	<input type="checkbox"/>
Formally documented your hedge accounting policy and aligned it with your risk management objectives ?	<input type="checkbox"/>	Identified the additional information and processes needed to meet the disclosure requirements ?	<input type="checkbox"/>

How did you do?

**How many of our 22 questions
have you answered 'yes'?**

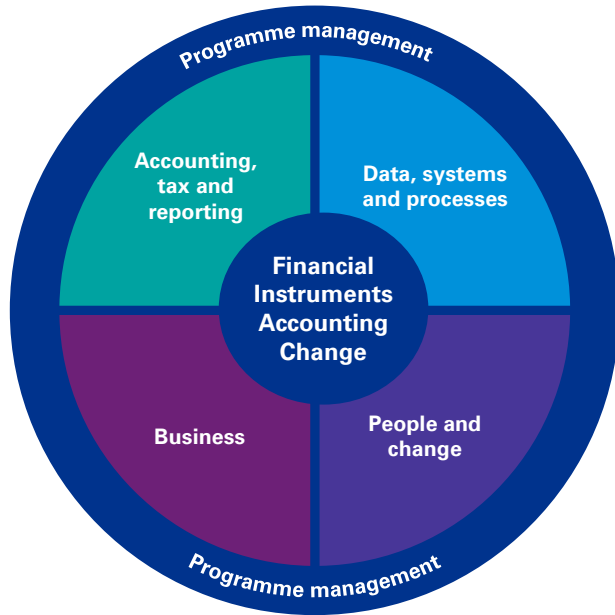
All 22 – You're good to go!

7-21 – You're on your way

0-6 – You really need to engage



Don't forget the broader business impacts



Have you...

- updated your management reporting, including KPIs?
- developed a transition plan for parallel runs, including reconciliations?
- thought about the tax implications?
- calculated the impact on bonus schemes?
- compared your approach with peers?

Find out more



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