IAS 39 & IFRS 9

The International Accounting Standards Board (IASB) has published a new International Financial Reporting Standard 9 (IFRS 9) as an improvement to the existing International Accounting Standard 39 (IAS39) Financial Instruments: Recognition and Measurement by mandating a new method for applying risk metrics to accounting relating to the Financial Instruments for all banks and insurance entities reporting according to IFRS. It will be effective for annual periods beginning on or after 01 Jan 2018 by replacing the existing IAS 39.

Overview of IFRS 9

IFRS 9 - Financial Instruments is built on a logical, single classification and measurement approach. The classification reflects the business model in which they are managed and their cash flow characteristics.

IFRS 9 requires financial institutions to move from an incurred loss model to an expected loss model. For the first time, financial institutions will have to recognize not only credit losses that have already occurred but also losses that are expected in the future that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

IFRS 9 will also include an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

Key differences between IAS 39 & IFRS 9	
IAS39	**IFRS 9**
Rule-based	Principle-based
Complex and difficult to apply Classification and Measurement rules	Classification based on business model and nature of cash flows
Multiple Impairment Models	One Impairment Model
Complicated Reclassification rules	Business model-driven reclassification

Worldwide, more than 100 countries require, permit or are converging to IFRS.

Crux of IFRS 9

IFRS 9

What?

New Guidance for:

- Classification and Measurement
- Impairment Accounting
- Hedge Accounting

Who?

All banks and insurance entities reporting to comply with IFRS

When?

Effective from 01 January 2018 onwards

Why?

- Simplification of Classification and Measurement categories
- Move from Incurred Loss to Expected Loss Model
- Improved Hedge Accounting Model

Temenos IFRS 9 solution

The current IFRS solution offered by Temenos is compliant with the rules of IAS 39. Our mission is to continue providing IFRS compliance for the Financial Instruments supported by Temenos products by replacing support for the IAS39 regulation with that of the new IFRS 9 regulation.

As part of IFRS 9, financial institutions will need to analyze the business model information and the cash flow characteristics of their financial assets to determine whether the assets should be measured at amortized cost or fair value. They will also need to calculate the expected credit loss for their assets over either a 12-month or lifetime period.

IFRS 9 Solution

Temenos will provide a standardized solution with the capability to support all the three key areas and get the clients comply with IFRS 9 regulation:

Classification and Measurement

Classification of the financial instruments in to the following three buckets:

- Amortised Cost (AMC)
- Fair Value through Other Comprehensive Income (FVTOCI)
- Fair Value through Profit or Loss (FVPL)

Business Model	Measurement
For the contracts measured at Amortised Cost	• Ability to project the Contractual cash flows of the financial instruments • Ability to compute the Effective Interest Rate (EIR) • Ability to calculate the Amortised Cost • Ability to do a disclosure at Fair Value
For the contracts measured at Fair Value	Equity Instruments • Ability to recognize the unrealized profit/loss on a daily basis based on the price • Ability to realise the actual profits upon sale. Interest bearing Instruments • Ability to project the Contractual cash flows of the financial instruments • Ability to link the Market Rate to the instrument • Ability to calculate the Fair Value

Impairment Accounting

New centralized impairment calculator will be developed in the system to move towards the Expected Loss Model and do the necessary Impairment Accounting by:

- Classifying the financial assets in to three buckets i.e. Stage 1, Stage 2 and Stage 3.
- Start recognising the ECLs from the initial recognition.
- Calculate and account for the ECLs based on the stage of the asset.

Hedge Accounting (optional requirement)

The Hedge Accounting solution will offer:

- Ability to state the Hedge Types
- Ability to document the Hedge Relationships
- Ability to define the Accounting Rules based on the type of the Hedge
- Ability to raise the Hedge Accounting Entries