IFRS® Foundation

IFRS 9 and research opportunities

IASB Research Forum
Panel session
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Overview

IFRS 9 at a glance

- Classification and measurement
- Expected credit loss (ECL) model
- Hedge accounting

Research opportunities

Questions

IFRS 9 at a glance

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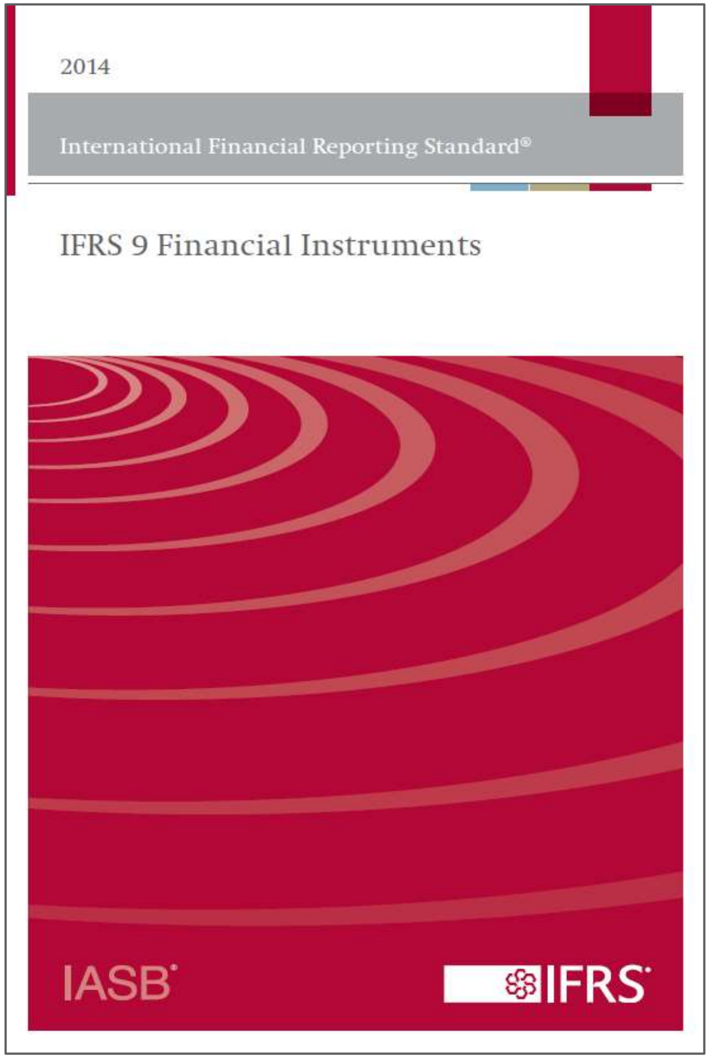

- Issued in 2014
- Effective 1 January 2018
- Replaces IAS 39

Key points:

- Classification and measurement
  - a logical, single classification approach driven by cash flow characteristics and how financial instruments are managed
- Impairment
  - forward-looking ‘expected credit loss’ (ECL) model
- Hedge accounting
  - better aligns with risk management activities

Classification of financial assets*

Objective	Useful information about the future cash flows
Approach	Business model + Contractual cash flows

A traditional banking business (taking deposits and lending money with simple products) would have financial assets at amortised cost

*Other than equity instruments

Classification of financial assets*

Fair value option still available for accounting mismatches	Business model = hold to collect	Business model = hold to collect and sell	Other business models
Cash flows are solely payments of principal and interest (SPPI)	Amortised cost	FVOCI*	FVPL
Other types of cash flows	FVPL	FVPL	FVPL

* Other than equity instruments

Overview of general ECL model

Change in credit risk since initial recognition

	Stage 1 'Performing'	Stage 2 'Underperforming'	Stage 3 'Non-performing'/Credit-impaired
Expected credit losses recognised	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue	Gross basis	Gross basis	Net basis

Benefits of the ECL model

Forward-looking model that is responsive to changes in credit risk and responds to the calls of the G20 and others

- Broader range of information required to be considered
  - Ensures more timely recognition of expected credit losses
  - Elimination of IAS 39 threshold
- Builds on existing systems to balance costs and benefits
  - Approximates 2009 ED in more operational manner
  - Similar concepts to regulatory capital models
- Single model reduces complexity of multiple approaches
- Enhanced disclosures:
  - Illustrate how an entity has applied the requirements
  - Show assets which have significantly increased in credit risk

How ECL improves financial reporting

Addressing 'too little, too late'	• Broader range of information to consider • Timely recognition of credit losses • Addresses 'front-ending income, back-ending losses'
One impairment approach	• For all instruments in scope
Enhanced disclosures	• More information about credit risk and how it is managed

Disclosure objectives - ECL

To enable users
to understand the *effect of credit risk*
on the *amount, timing* and *uncertainty*
of *future cash flows*

Entities' *credit risk management practices* and how they relate to recognition and measurement of ECL

Quantitative and qualitative information to evaluate amounts in the financials arising from ECL

Entities' *credit risk exposure* including significant credit risk concentrations

Hedge accounting model

IFRS 9 incorporates a major overhaul of hedge accounting that more closely aligns with risk management activities

- Align hedge accounting treatment with risk management activity
- Enable **preparers** to better reflect hedging in financial statements
- Provide disclosures to help **users** understand risk management

IFRS 9 Research Opportunities

Research Opportunities IFRS 9

- IFRS 9 brings many changes to accounting for financial instruments. Helpful evidence from:
  - Studies about the impact of these changes
  - Studies that use a range of methods.

- Pre and post application:
  - What changes in accounting practice are observed?
  - What are the financial impacts of the changes?

- Market effects
  - What are the effects for market participants of the changes?
  - What market outcomes are observed?

- Specific issues – see next slides

Research Opportunities IFRS 9

1. New expected credit loss model
   - What is the impact on reported numbers and financial ratios?
   - How do entities' calculations relate to economic fundamentals?
   - How do entities, industries and countries compare in their application of the model?
   - In the long term, how does better measurement of impairment contribute to goals such as financial stability?

2. There is no available for sale category for equity instruments (ie no impairment and recycling).
   - What is the significance and the characteristics of the investments affected by this change?
   - What new policies are used?
   - How prevalent is the use of the OCI election?
   - How do investors respond to choices made?

Research Opportunities IFRS 9

3. Transition choices – consider ECL and hedge/accounting risk management separately.
   - What transition approaches have entities adopted?
   - What are the characteristics of entities making various choices?
   - Are any market impacts observable in relation to these choices?

4. New disclosure requirements were included in IFRS 7 for ECL and hedge accounting. The Standard introduces more objective based disclosure requirements.
   - Can researchers observe changes in entities' disclosures because the drafting of disclosure requirements are different?
   - Do the new hedge accounting disclosures facilitate improved understanding of risk management and the impact of hedge accounting on the financial statements?
   - What factors are associated with better ECL and hedge accounting disclosures? Are regulatory effects observed?
   - Are costs or benefits of better disclosure observable?

Questions

Questions to IFRS 9 panel

Q1 What application challenges have you seen with IFRS 9?

Q2 How have stakeholders responded to IFRS 9?

Q3 What are the main takeaways for standard setters from academic work so far?

Questions to IFRS 9 panel

Q4 What evidence would you like to see from the academic community that would help standard setters evaluate IFRS 9 in the PIR?

Q5 What other research opportunities do you see for academics to contribute evidence to the PIR?

[PIR investigates whether the Standard is working as the Board intended] www.ifrs.org

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