IFRS 9 FINANCIAL INSTRUMENTS
A STUDY : TRANSITION IMPACT ON BANKS ACROSS THE GLOBE

ASIAN-OCEAN STANDARD-SETTERS GROUP (AOSSG) INTERIM MEETING

29TH SEPTEMBER, 2019, LONDON

Accounting Standards Board
The Institute of Chartered Accountants of India,
New Delhi, India

AGENDA

ASB, ICAI

1	**IFRS 9 – Background**
2	**IFRS 9 Transition Impact Study - Introduction**
2.1	*Sample Size and Jurisdictions Covered*
2.2	*Key Objectives, Approach and Limitations*
2.3	*Summary of Quantitative and Qualitative Aspects*
3	**Jurisdiction-wise Impact Highlights**
4	**IFRS 9 Impact on Basel Regulatory Capital**
5	**IFRS 15 Impact on Banks**
6	**Thank You**

IFRS FRAMEWORK -2ND WAVE OF REFORMS 2013 – 2021: ERA OF ‘LARGE 4’ IFRS STANDARDS

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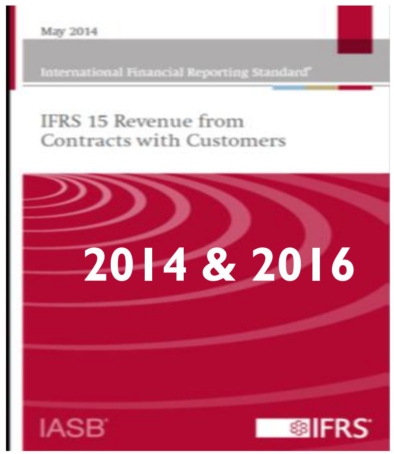
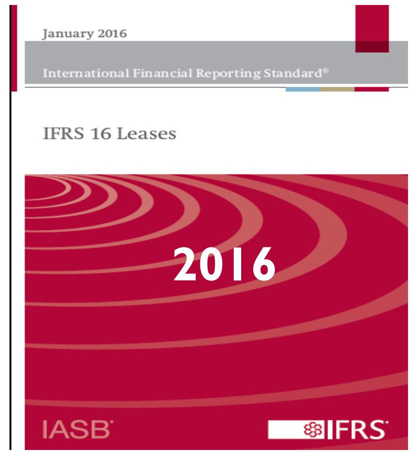
Issued in





IFRS 9 → IFRS 15 → IFRS 16 → IFRS 17

Effective Date

Jan 2021

Or Jan 2022+..

IAS 39 TO IFRS 9 – A JOURNEY OF REFORMS
THREE PHASES in TURBULENT TIMES

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July 2014 – Complete and Final version IFRS 9

Toughest Phase!

Phase 3 Hedge Accounting Nov 2013

Phase 2 Impairment – July 2014

- 1st ED - Nov 2009
- Supplementary Doc - Nov 2011
- Re-exposure draft -March 2013

Phase 1 Classification & Measurement – Nov 2009

IFRS 9 (Nov 2009) Financial Assets

IFRS 9 (October 2010) Financial Liabilities + FVOCI added

Few more related aspects	
De-recognition	In June 2010, IASB decided not to change IAS 39 principles & carried forward in IFRS 9
Fair value measurement	**Moved from IAS 39/IFRS 9 to IFRS 13 – a new** standard issued May 2011 & effective from Jan 2013

IFRS 9 TRANSITION IMPACT STUDY
SAMPLE SIZE COVERAGE – 75 BANKS : 26 JURISDICTIONS


Sri Lanka (4)


Malaysia (4)


Singapore (3)


South Korea (4)

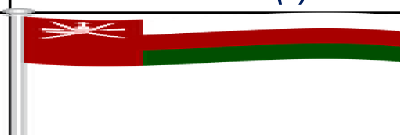

China (4)


Australia (4)


Hong Kong (2)


Middle East- UAE (4)


Middle East- Saudi Arabia (4)


Middle East- Oman (2)


Middle East- Bahrain (3)


Middle East- Kuwait (4)


Middle East- Qatar (3)


EU-United Kingdom (5)


EU-Germany (2)


EU-France (3)


EU- Nederland (1)


EU-Spain (2)


EU-Italy (2)


EU-Switzerland (1)


EU-Finland(1)


EU-Sweden (1)


EU-Norway (1)


EU-Denmark (1)


Canada (6)


South Africa (4)

IFRS 9 TRANSITION IMPACT STUDY
KEY OBJECTIVES, APPROACH AND LIMITATIONS

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Key Objectives

- Primary objective was to identity the "Quantitative Impact" of IFRS 9 Transition on
  - Total Equity
  - Regulatory Capital (Basel Capital)
- Other areas – "Qualitative Aspects"
  - Banks' approach towards Transition exemptions/reliefs, ECL computations
  - Prudential Regulators' Guidance and Engagement

Approach

- Desk Top Review of data and information given in financial statements of the entities' websites
- Regulatory Instructions/Guidance available Prudential Regulator's website
- In some cases, Jurisdictions have been grouped together for ease of reporting writing and not necessarily based on similarity of economic and regulatory environments

Limitations

- Small Sample Sizes, hence can not be representative of the entire jurisdiction
- Solely based on data & information in the financial statements, specific enquiries would have revealed a different conclusion

IFRS 9 TRANSITION IMPACT STUDY QUANTITATIVE ASPECTS - SUMMARY

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IFRS 9-Initial Impact as of Transition Date

- ❖ Impact on total equity
  - Total impact due to IFRS 9 transition
  - ECL Model
  - Other Classification & Measurement
- ❖ Impact on Total Assets, Classification and Measurement categories
  - Amortised Cost (AC)
  - Fair Value through Profit and Loss (FVTPL)
  - Fair Value through Other Comprehensive Income (FVOCI)
- ❖ Impact on Financial Assets: Total and Measurement Category-wise
  - Financial Assets Percentage to Total Assets
  - Financial Assets: Measurement category-wise Percentage
- ❖ Impact on ECL Provisions: On Balance Sheet and Off Balance Sheet Exposures
- ❖ Transition impact on Basel Regulatory Capital -CET 1

IFRS 9- Analysis based on data at the end of first full year reporting

- ❖ Credit Quality Analysis
  - Gross Carrying Amounts – Stage wise Percentage
  - ECL provisions- Stage wise Percentage

IFRS 15-Transition impact on Equity as on Transition Date

IFRS 9 TRANSITION IMPACT STUDY QUALITATIVE ASPECTS - SUMMARY

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Transition Exemptions and Reliefs

- Exemption from restatement of comparatives
- Continuation of IAS 39 Hedge Accounting
- Prepayment Features with Negative compensation' amendments early adoption
- IFRS 9 exemptions to Insurance Subsidiaries

ECL Measurement Approaches

- 3-5 year Transition Relief Used
- PD/LGD/EAD Models used
- Basel II models are used as basis
- ECL Computation- No. of Scenarios
- ECL Computation- No. of Economic Factors

Prudential Regulators' Guidance and Instructions

- Regulatory Guidance
- Guidance Areas
- Key highlights of Regulations
- Transition Relief for Capital Impact

Other Background Information

- Accounting Framework
- IFRS 9 carve-outs
- Basel Regulatory Capital, BCBS Guidelines and Transitional Provisions

IFRS 9 TRANSITION IMPACT STUDY
QUALITATIVE KEY ASPECTS - SUMMARY OF IMPACT

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Transition Exemptions and Reliefs

- All the 75 entities have opted for exemption from restating the prior year comparative financial information; thus there is loss of information about IFRS 9 initial impact on the Income Statement for the comparative year.
- Majority of the entities have chosen to continue to apply the hedge accounting requirements of previous standard IAS 39.
- Less number of entities have used early adoption of a recent IFRA 9 amendment (Prepayment Features with Negative Compensation)
- In respect of IFRS 4 amendment, based on limited set of information there seems to be preference for ‘Temporary Exemption’ from IFRS 9 versus ‘Óverlay Approach

Expected Credit Loss Measurement Approaches

- 72 out of the 75 entities have reportedly based their ECL computations on sophisticated credit risk measurement parameters viz. PD, LGD & EAD.
- It is unclear in many of these cases whether the entities have leveraged their infrastructure of Basel Capital Adequacy Frameworks used for prudential regulatory purposes.
- For ECL Measurement Techniques, generally 3 scenarios (e.g. Base case, Downside and Upside) have been considered and number of economic factors such as GDP, Inflation, Crude Oil Price are considered by the BFIs are reported in the range of 3-8.

IFRS 9 TRANSITION IMPACT STUDY
QUALITATIVE KEY ASPECTS- SUMMARY OF IMPACT

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Prudential Regulators Guidance and Engagement

- Prudential regulators of almost all jurisdictions have issued timely and suitable instructions to Banks and Financial Institutions (BFIs).
- The Basel Committee on Banking Supervision (BCBS), an international supervisory forum of Banking sector, issued a supervisory guidance in Dec 2015 'Guidance on credit risk and accounting for expected credit losses' containing 11 principles, 8 of which are applicable to Banks (preparers) and 3 are directed towards the National Prudential Regulators.
- Further, the BCBS has complemented the above guidance with another guidance in March 2017 'Regulatory treatment of accounting provisions – interim approach and transitional arrangements'.
- Overall, there is positive approach towards acceptance and implementation of IFRS 9 in entirety including the expected credit loss model for impairment loss recognition and measurement.
- This is evident from the finding that only three (3) jurisdictions out of 26 covered in the study have applied regulatory overrides to IFRS 9 ECL requirements.

IFRS 9 TRANSITION IMPACT STUDY
QUANTITATIVE ASPECTS- SUMMARY OF IMPACT

ASB, ICAI

- ECL Approach for recognition and measurement of impairment loss had resulted in reduction in Equity due to increased amount of impairment loss allowances except in one jurisdiction. In some jurisdictions, the negative impact of ECL is partly offset by deferred tax benefits on these impairment loss allowances.
- The reclassifications are largely reported in FVTPL and FVOCI categories and due to application of SPPI Test. Though there are reclassifications of material gross carrying amounts, but its net quantitative initial impact on Equity is reportedly not material.
- IFRS 9 impact is reportedly concentrated in Financial Assets area. There have been hardly any changes in respect of Financial Liabilities except for a few entities out of 75 entities.
- In relation to new Hedge Accounting Framework of IFRS 9, the BFIs have not reported any major impact.
- IFRS 9 impact on regulatory capital has not been reported by all 75 BFIs included in this study. This data was readily available in case of only 19 BFIs and generally trend is reduction in CET1 ratio, but magnitude of reduction appears to be very low.
- No material impact on Equity has been observed on account of IFRS 15.

JURISDICTION WISE IMPACT HIGHLIGHTS SRI LANKA AND MALAYSIA

ASB, ICAI

Classification and Measurement

- 80% of financial assets are classified under Amortised Cost.
- Percentage of financial assets classified under FVTPL is not material.

Equity Impact

- Three out of Eight banks have reported negative impact on equity ranging from 5.3% to 7.7% due to higher ECL provisions which is partly offset by positive impact of reclassification and tax benefits on ECL.

ECL Provisions

- All banks have reported significant increase in overall ECL provisions, both in respect of On B/S as well as Off B/S exposures.

Credit Quality Distribution across ECL Buckets

- Banks have reported >86%, 4-10% and 2- 5% of On- B/S credit exposures in Stage 1, Stage 2 and Stage 3 buckets, respectively.
- Two Malaysian Banks have reported comparatively high percentage of ECL provision relating to Stage 1 & 2 bucket.

JURISDICTION -WISE IMPACT HIGHLIGHTS SINGAPORE AND SOUTH KOREA

ASB, ICAI

Classification and Measurement

- In both jurisdictions, large majority of financial assets are classified under Amortised Cost category.
- Three (3) banks have reported sizebale %age, more than 10% in FVTPL category.

Equity Impact

- Singapore Banks have reported positive impact on equity due to higher ECL (impairment loss allowance) balances at the start of transition date.
- All Korean Banks have reported negative impact on equity but of negligible size.

ECL Provisions

- In case of Singapore, all three banks have reported decrease in On-B/S impairment loss allowance; whereas two banks have reported increase in Off- B/S impairment loss allowance.
- In case of Korea, there is overall increase in ECL on account of transition to IFRS 9.

Credit Quality Distribution across ECL Buckets

- In both jurisdictions, almost all banks have reported more than 90% of On-B/S exposure in Stage 1 bucket whereas large percentage of ECL provisions is reported for Stage 3 (credit impaired) bucket.

JURISDICTION -WISE IMPACT HIGHLIGHTS CHINA, AUSTRALIA AND HONG KONG

ASB, ICAI

Classification and Measurement

- In case of China, >88% are classified under Amortised Cost category. Banks have reported increase in FVTPL category due to reclassification of certain debt securities from previous classification of AFS/HTM categories and reclassification of Reverse Repo balances from previous classification in Loans & Receivables (L&R) (Amortised Cost (AC)) category.
- In case of Australia, around 68%-69% FAs are classified as Amortised Cost whereas percentage of FA classified as FVOCI category is less than than 5%. Two (2) banks have reported material reclassifications of financial assets in/from FVTPL and AC categories.
- In case of Hong Kong, around 74-82% FAs are classified in Amortised Cost category. Significant percentage of FAs classified as FVOCI -around 14-21% whereas percentage of FA classified as FVTPL category is not more than 6%.There is no material reclassification reported between different categories of financial assets.

Equity Impact

- The reduction in Equity is not more than 2.2%. Generally, negative impact on Equity is due to increase in ECL provisions which is partly offset by other IFRS 9 adjustments.

JURISDICTION- WISE IMPACT HIGHLIGHTS CHINA, AUSTRALIA AND HONG KONG

ASB, ICAI

ECL Provisions

- In case of China, all the four banks have reported net increase in ECL provisions.
- Similarly, in case of Australia, all four banks have reported net increase in ECL provisions in the range of 20 to 36%.
- In case of Hong Kong, one bank has reported substantial net increase in ECL provisions of 67.4% while other Banks have reported net increase of 4.5% in ECL provisions.

Credit Quality Distribution across ECL Buckets

- In case of China, substantial part (>96%) of On-B/s credit exposures is reported in Stage 1 Bucket. Percentage of financial assets in Stage 2 and Stage 3 bucket is very low or negligible.
- In case of Australia, percentage of financial assets in Stage1 is 89%. Percentage of financial assets in Stage 2 and Stage 3 bucket is in the range of 9-11% and 1-2%, respectively.
- In case of Hong Kong, percentage of financial assets in Stage 1 and Stage 2 is around 96% and 4%, respectively. Percentage of financial assets in Stage 3 (credit impaired) bucket is very low or negligible.

JURISDICTION -WISE IMPACT HIGHLIGHTS MIDDLE EAST – GCC PART 1

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Classification and Measurement

- Substantial percentage of financial assets is reported under Amortised Cost category, the range is 81% to 99%.
- There have been significant reclassifications, primarily between FVTPL and previous AFS category due to reclassification of debt securities and equity securities.

Equity Impact

- All Ten (10) banks have reported reduction in Equity primarily on account of higher ECL Provisions, and in one case equity has reduced by 7.6%.

ECL Provisions

- Almost every bank has reported significant increase in overall ECL Provisions. However, 4 banks have not reported any increase in ECL provision for Off- B/S exposure.
- ECL Provisions as a % of outstanding Off-B/S exposures are generally negligible.

Credit Quality Distribution across ECL Buckets

- Substantial percentage of On-B/s credit exposures is reported in Stage 1 Bucket. However, in case of three BFIs, material part of financial assets is reported in Stage 2 ranging from 12% to 21%.
- Significant percentage of ECL Provisions is attributable to FA reported in Stage 2 & 3.

JURISDICTION- WISE IMPACT HIGHLIGHTS MIDDLE EAST – GCC PART 2

ASB, ICAI

Classification and Measurement

- 0.7%-14.9% is classified under FVOCI and large % classified under Amortised Cost category.
- Decreases in FVOCI category is due to reclassification of debt & equity securities

Equity Impact

- All BFIs have reported negative impact primarily due to higher ECL Provisions on Equity except for 1 bank which has shown negligible positive impact.

ECL Provisions

- All banks have indicated increase in ECL Provision balances, primarily in respect of On- B/S exposures, except for 1 bank which has reported decrease of 15.5%.

Credit Quality Distribution across ECL Buckets

- Majority of BFI's have reported substantial portion of exposure in Stage 1 bucket.
- However, two out of the Six BFI's have reported sizeable portion in Stage 2 bucket.
- Five BFIs have reported >60% of On-B/S ECL provisions for Stage 3 bucket.
- One BFI has attributed comparatively lesser percentage i.e. 39% of On B/S ECL provisions to Stage 3 bucket.

JURISDICTION- WISE IMPACT HIGHLIGHTS EUROPE PART I

ASB, ICAI

Classification and Measurement

- 20% to 45% of FA are reported under FVTPL category. This Measurement category wise profile is significantly different from other jurisdictions.
- 9 out of 10 banks have reported reclassifications of FA in/from FVTPL and FVOCI.

Equity Impact

- No material impact on Equity has been reported except for one bank where a slightly comparatively higher percentage of 4% reduction in equity.

ECL Provisions

- All banks have reported increase in ECL provisions, both in respect of On B/S as well as Off B/S exposures, except 1 bank which has reported reduction in On B/S ECL provision due to reclassification of certain loans from AC category into FVTPL.

Credit Quality Distribution across ECL Buckets

- All the banks have reported >90% of On B/S credit exposures in Stage 1 bucket. 3 out 10 banks have reported 6-8% percentage in Stage 2 bucket.
- Large majority of banks have reported >20% of total impairment loss allowances for Stage 1 & 2 bucket. Only two banks have reported less than 20% for Stage 1 & 2.

JURISDICTION- WISE IMPACT HIGHLIGHTS EUROPE PART 2

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Classification and Measurement

- There is significant diversity among banks in the measurement category wise profile of financial assets.
- Significant percentage of financial assets are reported under FVTPL category; Five out of Ten Banks have reported well above 25% and two of these have reported 40 & 56% in FVTPL category. FVOCI category appears to be used to a minimal extent.
- There are significant reclassifications into/from AC and FVTPL categories. Four banks had material reclassifications in AC category from previous category of AFS due to application of Business Model and SPPI test.
- All banks except one have reported material reclassifications in FVTPL and FVOCI category.
- Seven banks have reported significant reclassifications into FVTPL category as a result of either SPPI or Business Model Test.

Equity Impact

- No material impact on Equity has been reported except in case of two banks where a slightly comparatively higher percentage of c.5% reduction in equity.

JURISDICTION -WISE IMPACT HIGHLIGHTS EUROPE PART 2

ASB, ICAI

ECL Provisions

- All the banks have reported overall increase in ECL provisions except one bank where there is significant reduction. In another case, the increase in ECL provision is negligible.

Credit Quality Distribution across ECL Buckets

- Large majority of banks have reported substantial percentage (>90%) of On-B/S credit exposures in Stage 1 bucket. Two banks have reported comparatively lower percentages but still above 80%.
- In Stage 2, exposure reported is in the range of 2-9% and Four banks out of Ten Banks have reported 1% or less in Stage 3.
- There is diversity in the range of percentage of ECL distribution across different buckets of credit quality.

JURISDICTION -WISE IMPACT HIGHLIGHTS CANADA AND SOUTH AFRICA

ASB, ICAI

Classification and Measurement

- While large part of total financial assets are classified under Amortised Cost category, significant percentage of up to 36% is classified under FVTPL. Use of FVOCI is reportedly low and generally less than 10% of total financial assets except in two cases it is around 10-11%.
- In case of Canada, almost all the banks have reported reduction in FVOCI category due to reclassification into other two categories.
- In case of South Africa, two banks have reported decrease in FVOCI category balances and remaining two have reported substantial increase in FVOCI category due to reclassification of certain debt securities from AC category.

Equity Impact

- In case of Canada, impact on Equity has been very low and primarily on account of ECL adjustments. In case of South Africa, there is a noticeable reduction in Equity and in one case equity has reduced by more than 10%.

JURISDICTION -WISE IMPACT HIGHLIGHTS CANADA AND SOUTH AFRICA

ASB, ICAI

ECL Provisions

- In case of Canada, five out of six banks have reported net increase in ECL provisions. However, in case of three banks the net increase is very low.
- In case of South Africa, all four banks reported net increase in ECL provisions in the range of 26 to 58%. The increase in respect of Off B/S exposures is generally low or very low.

Credit Quality Distribution across ECL Buckets

- In case of Canada, substantial part (>90%) of On-B/s credit exposures is reported in Stage 1 Bucket. Percentage of financial assets in Stage 3 (credit impaired) bucket is very low or negligible.
- In case of South Africa, percentage of financial assets in Stage 1 is 86 to 91%. Percentage of financial assets in Stage 3 (credit impaired) bucket is in the range of 3 to 4.8%.
- In case of Canada, large percentage of ECL provisions is reported for Stage 1 and 2 buckets.
- In case of South Africa, large percentage of ECL provisions is reported for Stage 3 (credit impaired) bucket.

IFRS 9 TRANSITION IMPACT ON BASEL REGULATORY CAPITAL

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Quantitative Impact

- ❖ Potential adverse initial impact of ECL model on the regulatory capital of banks had been one of the major concerns of the banks, investors and the prudential regulators of the banks.
- ❖ 19 banks in our study had given information about the impact of IFRS 9 on their Basel Regulatory Capital. Initial adverse impact does not appear to have created situation of capital shock among banks. In two cases, there has been a positive impact on the regulatory capital on transition.

Prudential Regulators’ Guidance and Engagement

- ❖ Overall a positive approach with timely and active engagement

IFRS 15 TRANSITION IMPACT ON EQUITY

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Quantitative Impact

❖ There has been either no quantitative impact or very minimal on equity due to of transition to IFRS 15.

Few Banks in following Jurisdictions have shown impact between 0.002% -0.29%, other Jurisdictions have mentioned no impact or no material impact:

South Korea	EU-UK	EU-France	EU-Nederland	EU-Switzerland
EU-Finland	Canada	South Africa		

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Thank You

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