

# ESMA PUBLIC STATEMENT: ISSUES FOR CONSIDERATION IN IMPLEMENTING IFRS 9 *FINANCIAL INSTRUMENTS*

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## Background

In light of the expected impact and importance of the implementation of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* for periods beginning on or after 1 January 2018, the European Securities and Markets Authority (ESMA) has issued a public statement to set out the disclosures it expects companies to provide in their financial statements prior to formal adoption of the standard. In this context it should also be noted that IFRS 9 has now been endorsed for use in the European Union (EU).

The public statement draws preparers' attention to the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires disclosure of impending changes in accounting policies when an issuer has not adopted an accounting standard (in this case IFRS 9) in advance of its effective date.

Specifically, IAS 8 requires disclosure of 'known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application', and ESMA highlights that this requirement encompasses both qualitative and quantitative information. Furthermore, ESMA stresses that the objective of this disclosure requirement in IAS 8 is to enable users of the financial statements to understand beforehand the impacts that the future application of IFRS 9 will have on entities' financial position and performance.

This IFRB summarises the main points in the public statement. The full statement can be accessed from the following link:

<https://www.esma.europa.eu/press-news/esma-news/esma-prepares-new-international-financial-reporting-standard-9>

## STATUS

Final

## EFFECTIVE DATE

Immediate

## ACCOUNTING IMPACT

Guidance on compliance with IAS 8 disclosure requirements in advance of adopting IFRS 9.

### Summary of the public statement

The public statement identifies that IFRS 9 could result in a number of significant changes to the accounting for financial instruments for some entities, and in particular financial institutions. These include:

- New guidance on the classification of financial assets, which could result in changes to the measurement basis (fair value or amortised cost) and, if required to be measured at fair value, where changes in fair value are reported (profit or loss, or other comprehensive income).
- A new impairment model for financial assets carried at amortised cost or fair value through other comprehensive income. IFRS 9 introduces an expected credit loss model which will typically see losses recognised earlier than they are under IAS 39's incurred loss model.
- New requirements and guidance on hedge accounting which potentially increases the types of risks to which hedge accounting can be applied.
- For financial liabilities that are designated at fair value through profit or loss, a requirement to present the change in fair value attributable to changes in own credit risk in other comprehensive income rather than profit or loss.
- A number of accounting policy choices, such as whether to present changes in fair value of equity investments in profit or loss or other comprehensive income, whether to continue to apply IAS 39's hedge accounting requirements, or the option to early apply the requirements for the presentation of the fair value changes arising from credit risk on financial liabilities designated at fair value through profit or loss.

A more comprehensive analysis of the changes being introduced by IFRS 9 can be found in BDO International's *IFRS in Practice* publication available from the following link:

<https://www.bdo.global/en-gb/services/audit-assurance/ifrs/ifrs-in-practice>

### ESMA's expectations with regards to all companies

In order to comply with the requirements in IAS 8.30 in relation to the impending application of IFRS 9, ESMA expects companies to:

- provide information about the accounting policy choices that are to be taken upon first application;
- disaggregate the expected impact into elements that are useful to users of financial statements; and
- explain the nature of the impact so that users of the financial statements understand the changes and their key drivers when compared to the accounting currently being applied under IAS 39.

As the implementation of IFRS 9 progresses, ESMA expects information to become more reasonably estimable. Consequently, it anticipates that as time passes subsequent financial reports should contain progressively more entity specific qualitative and quantitative information on the impact IFRS 9 will have.

### Financial Institutions

In financial statements prepared by financial institutions for accounting periods prior to the adoption of IFRS 9, ESMA identifies some good disclosure practices. For example, assuming a

December year-end, in an entity's 2016 annual financial statements it suggests an entity could include:

- a detailed description and explanation on how key IFRS 9 concepts will be implemented and, where relevant, highlighting the differences to current approaches;
- an explanation of the timeline for implementing IFRS 9, including expected use of the transition relief;
- if known or reasonably estimable, reliable quantification of the possible impact. Or, if not available, additional qualitative information enabling users to understand the magnitude of the expected impact.

Although IAS 34 *Interim Financial Reporting* does not require specific disclosures similar to those required by IAS 8.30 in annual financial statements, ESMA encourages entities to consider whether the inclusion of an update to the information provided in the 2016 annual financial statements would be useful. In particular, it suggests an entity could provide:

- quantitative information on the impact of transition where it was unable to provide such information in its 2016 annual financial statements; or
- significantly more information than was previously provided as the entity would likely have progressed further through its implementation project

Finally, regarding the annual financial statements for 2017, as these will have been published after IFRS 9 becomes effective ESMA considers that issuers should provide a quantitative assessment of the impact IFRS 9 will have on their financial statements as of 1 January 2018 (i.e. the start of the first period IFRS 9 will apply). Where relevant, ESMA also encourages disclosure of the impact on regulatory requirements

### Insurance Companies

ESMA notes that the International Accounting Standards Board (IASB) has finalised the amendments to IFRS 4 *Insurance Contracts* to address issues arising from the difference in mandatory effective date between IFRS 9 and the new insurance contracts standard. In this context, ESMA expects insurance companies to provide, as soon as practicable, transparent information about their approach to the implementation of IFRS 9 and/or the application of the options addressing the effects of differences between the effective dates.



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