

## IFRS 9: Financial Instruments - A Study: Transition Impact on Banks Across the Globe



*Any change, even a change for the better, is always accompanied by drawbacks and discomforts.* -Arnold Bennett

The IFRS Standards is a dynamic framework and undergoes reforms periodically to keep pace with the evolving business and commerce. Current decade marks the monumental change in three areas of financial reporting i.e. the standards relating to Financial Instruments, Revenue from Contracts with Customers and Leases have been comprehensively overhauled and existing standards are replaced by new robust standards, IFRS 9, IFRS 15 and IFRS 16 respectively.

IFRS 9 brings in path breaking reform in the area of IFRS Standards globally. This is expected to have a complete overhaul of IFRS on financial instruments and significantly impact the entities in financial services sector. The Accounting Standards Board (ASB) of ICAI undertook a project to evaluate the impact of worldwide implementation of IFRS 9, so that this impact would provide valuable insights of these financial reporting reforms. The ASB came out with Study Report on IFRS 9 *Transition Impact on Banks across the Globe* which will act as a guiding factor for banks and jurisdictions that will be transitioning to IFRS 9 or equivalent standard viz. Ind AS 109 in the near future. The study is comprehensive one covering 75 banks from 26 global jurisdictions. The

Contributed by Accounting Standards Board of the ICAI. Comments can be sent to [asb@icai.in](mailto:asb@icai.in). Refer [https://www.icai.org/post.html?post\\_id=14058](https://www.icai.org/post.html?post_id=14058) for Ind AS –IFRS Standards Convergence Status

study reflects that Prudential Regulators of various jurisdictions were proactive and highly supportive of embracing this change. While the study is focussed on quantitative impact on Equity, Regulatory Capital etc., it also analyses the role played by the banking sectors' prudential regulators in those 26 jurisdictions.

The Study Report has been released on July 1, 2019, on CA Day. For the benefits of the Indian stakeholders at large, the Study Report has been hosted on the ICAI website at [https://www.icai.org/post.html?post\\_id=15773](https://www.icai.org/post.html?post_id=15773)

### Compendium of Indian Accounting Standards (Ind AS)

2<sup>nd</sup> edition (print version) of Compendium of Indian Accounting Standards (Ind AS) has been released on July 1, 2019. This updated compendium includes all standards/amendments effective for accounting period beginning on or after April 01, 2019.

### Developments at IFRS Foundation & IASB

#### (1) Comments on Exposure Draft issued by IASB

(i) **Amendments to IFRS 17** - The International Accounting Standards Board (IASB) issued the targeted amendments to IFRS 17, *Insurance Contracts*, in May 2017 for comments to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. Last date of submitting the comments to IASB is September 25, 2019. A total of 12 amendments are proposed.

IFRS 17 is needed to address many inadequacies in the wide range of insurance accounting practices used applying IFRS 4 *Insurance Contracts* and significant implementation activities are already underway. The IASB has considered the concerns and challenges raised by stakeholders and concluded that the potential costs of proposing targeted amendments to IFRS 17 could be justified if those amendments would provide meaningful support to entities implementing the Standard and if those amendments:

(a) would not change the fundamental principles of the Standard because that would result in a significant loss of useful information for users of financial statements relative to that

which would otherwise result from applying IFRS 17; and

- (b) would avoid unduly disrupting implementation already under way or risking undue delays in the effective date of IFRS 17.

- (ii) **Reference to the Conceptual Framework Proposed amendments to IFRS 3** - The IASB has issued the Exposure Draft of narrow-scope amendments to IFRS 3 Business Combinations for comments. Last date of submitting the comments to IASB is September 25, 2019.

The amendments would update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Updating the reference without making any other changes to IFRS 3 could change the accounting requirements for business combinations because the liability definition in the 2018 Conceptual Framework is broader than that in previous versions.

The Accounting Standards Board (ASB) with the aim to provide an opportunity to the various stakeholders in India to raise their concerns at the Exposure Draft stage itself so that these concerns are appropriately addressed, hosted the aforesaid Exposure Drafts issued by the IASB on the ICAI website with the last date of comments being August 16, 2019. The same can be accessed online at: <https://www.icai.org/>

- (iii) **Annual Improvements to IFRS Standards 2018–2020:** The Exposure Draft issued by IASB proposes amendments in the Standards on (1) IFRS 1, *First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter of IFRS Standards*, (2) IFRS 9, *Financial Instruments - Fees included in the '10 per cent' test for derecognition of financial liabilities*, (3) Illustrative Examples accompanying IFRS 16, *Leases - Lease incentives*, (4) IAS 41 *Agriculture - Taxation in fair value measurements*.

- (2) **Comments on Exposure Draft issued by IFRS Interpretations Committee** - IFRS Interpretations Committee at its June meeting included new Agenda Items for its consideration on Compensation for Delays or Cancellations (IFRS 15), Disclosure of Changes in Liabilities Arising from Financing Activities (IAS 7), Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets (IFRS 9), Lease Term and Useful

Life of Leasehold Improvements (IFRS 16 and IAS 16), Lessee's Incremental Borrowing Rate (IFRS 16), Presentation of Liabilities or Assets Related to Uncertain Tax Treatments (IAS 1) and Subsequent Expenditure on Biological Assets (IAS 41). These items are now open for comments from public, last date being August 20, 2019. The same can be accessed online at: <https://www.ifrs.org/news-and-events/updates/ifric-updates/june-2019/>

### Initiatives of Ind AS Implementation Committee

**Release of Educational Material on Indian Accounting Standard (Ind AS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*** which addresses all relevant aspects envisaged in the Standard by way of brief summary of the Standard and Frequently Asked Questions (FAQs) which are being/expected to be encountered while implementing the Standard.

**Release of Indian Accounting Standards (Ind AS): An Overview (Revised 2019)** which is the fourth edition of earlier issued publication which contains an overview of various aspects related to Indian Accounting Standards (Ind AS) such as roadmap for the applicability of Ind AS, carve-outs from IFRS/IAS, changes in financial reporting under Ind AS compared to financial reporting under accounting standards, summary of all the Ind AS etc.

### Issuance of Ind AS Technical Facilitation Group (ITFG) Clarification Bulletin 20

As the implementation of Ind AS began in the country, a number of issues were being raised by the members, preparers and other stakeholders with regard to applicability/implementation of Ind AS. For addressing transition related queries in a timely and speedy manner, an Ind AS Technical Facilitation Group (ITFG) (formerly known as Ind AS Transition Facilitation Group) was constituted in the year 2016 which issues clarification bulletins addressing implementation issues from time to time.

The Group comprises of experts from accountancy firms, industry representatives and other eminent professionals. Recently, the Group has brought out ITFG Clarification Bulletin 20 comprising 5 issues. All the clarification bulletins can be accessed at the website of ICAI at the following link: [https://www.icai.org/post.html?post\\_id=12745](https://www.icai.org/post.html?post_id=12745) ■