



IFRS 9: *Financial Instruments*

Impact and gaps – are you ready?

Accounting Advisory Services

KPMG LOWER GULF



Overview

In 2014, the IASB issued IFRS 9: *Financial Instruments*, which replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 supersedes all previous standards and is mandatory for periods beginning on or after **1 January 2018**. Early adoption permitted.

Required date of application for comparative purposes

1 January 2017

Classification and measurement

IFRS 9 uses a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics.

Impairment

The forward-looking expected credit loss (ECL) model which result in more timely recognition of loan losses, is a single model that is applicable to all financial instruments subject to impairment accounting.

Hedge accounting

The standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

Key considerations for CXOs

Chief Executive Officer

- How will the effects of IFRS 9 be included in your business planning and forecasting?
- Have you considered the impact that IFRS 9 will have on your product pricing?
- Have you considered how IFRS 9 will affect other aspects of your business?
- Have you determined whether your key performance indicators need to be adjusted?

Chief Finance Officer

- Do you know your ECL under IFRS 9?
- Have you considered the effects on your regulatory capital?
- Have you considered how the volatility in provisions will affect your bottom-line?

Chief Risk Officer

- Have you considered leading economic indicators in your PD, LGD and EAD models?
- Are your models sensitive enough to ensure that variables that may trigger impairment are identified?

Chief Information Officer

- Do your systems have the data required for IFRS 9's modelling and disclosure requirements?
- Have you considered how the required data will be collected, cleansed, integrated and housed?

Chief Compliance Officer

- Have you considered how IFRS 9 will affect your governance frameworks?
- How will your business ensure that the required controls are in place and operating effectively?

Impact of IFRS 9



Impact and gap assessment

Classification and measurement

- Determine which portfolios will most likely be impacted
- Conduct workshops with Finance, Credit, Operations
- Validate key assumptions and discuss the high-level operational impacts of IFRS 9
- Determine any impact on your product approval process
- Document findings to indicate areas of concern across the business
- Test a sample of items against IFRS 9's Solely Payments of Principal and Interest (SPPI) and business models requirements
- Document the key accounting judgements and issues that require management ratification. Provide recommendations in line with industry leading practice

Impairment

- Understanding the current provisioning models through discussions with stakeholders
- Co-develop segmentation criteria for different portfolios taking into account risk characteristics and assess portfolio concentration
- Co-develop indicative parameter estimates for 12-month and lifetime expected credit losses
- Compute 12-month and lifetime expected losses, compare these with existing segments and assess the impact
- Assess the impact of any changes against the Basel requirements
- Hold a workshop with senior stakeholders to present the results of the analysis

Hedging

- Understanding current state hedging strategies, existing issues and disclosures through discussions with key stakeholders
- Explore and discuss hedging options available under IFRS 9
- Analyse the practical implications of the chosen alternative

Impact of IFRS 9



Impact and gap assessment (cont.)

Systems and data

- Hold walkthroughs with system owners and document the current state data architecture
- Any IFRS 9 changes required
- Perform a detailed operational gap analysis based on IFRS 9 disclosures and the required data
- Investigate current credit risk methodologies, tools and available data
- Through workshops, provide methodological assistance for the high-level design of the IFRS 9 expected credit loss model

Governance

- Hold walkthroughs with system owners and document the current state process and controls
- Identify all IFRS 9 changes required to processes and controls
- Identify key points in processes where governance will be needed
- Analyze operational gap between IFRS 9 disclosures and the required governance
- Provide recommendations in line with industry leading practice

People

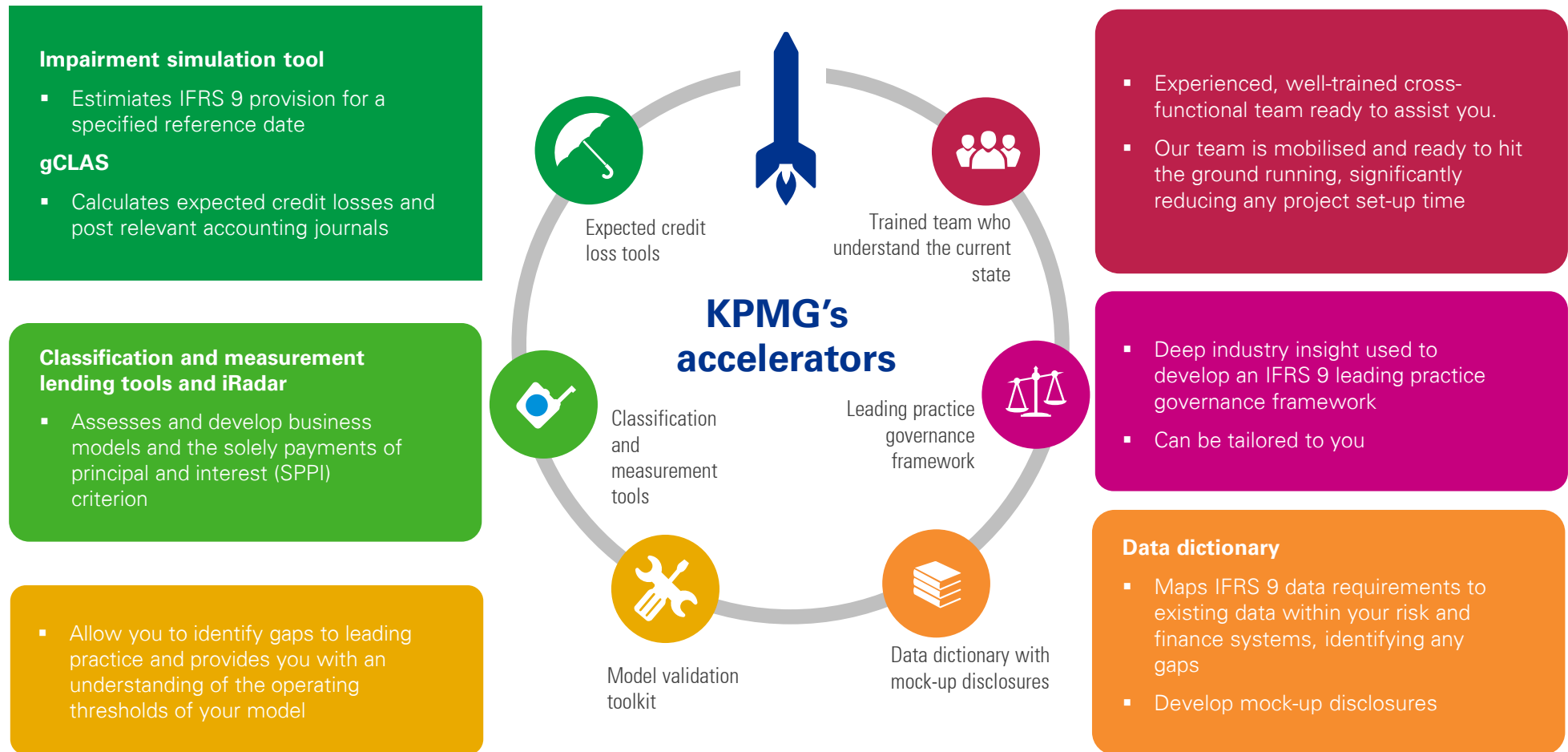
- Discuss the business team with key stakeholders
- Co-determine all learning requirements
- Hold IFRS 9 training sessions in both classrooms and workshops

Impact of IFRS 9



Suite of market-leading accelerators

KPMG has developed a suite of market-leading accelerators which have been built to assist with both impact assessment and IFRS 9 implementation



Impact of IFRS 9



The greater value KPMG brings



Technical knowledge that drives commercial benefit

We understand the complexities of implementing IFRS 9

Our team specializes in accounting advisory. We understand the key issues in implementing IFRS 9. Our people have deep technical knowledge and extensive experience in providing accounting advisory services. They are thought leaders and have assisted a number of banks in assessing the impacts of IFRS 9.



The right blend of people and experience

We offer the right people with the right skills

We always put together a team with the right skills and knowledge required to meet your needs. Our IFRS 9 teams include people with experience in accounting, risk modelling, systems and data management, as well as process design and governance.



Local strength and global reach

We offer insight from other IFRS 9 projects

We are working with over 10 banks on various IFRS 9 projects across the Middle East. Our team has worked on many of these projects and can share valuable knowledge, including “quick-wins” from ongoing IFRS 9 projects nearing completion. The global KPMG IFRS 9 Community is closely knit and we will bring you the relevant insights as views develop.



Decisive partner

We understand your needs and we ensure full alignment with your objectives

We understand your needs. We put significant effort into understanding your objectives and aligning our efforts with your objectives. We are not shy of making decisions and our deep experience in accounting and modelling with banks allows us to clearly evaluate the benefits and possible implications of our options.



With you all the way

While we conduct the impact assessment, we keep our focus on the larger goals

We can collaborate and partner with you during all phases of the IFRS 9 project to ensure successful completion. Our approach is thought through and considers the usefulness of the impact assessment in the implementation phase. As a result, we focus on delivering practical, and high quality solutions.

Impact of IFRS 9



Our people



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- Raajeev has over 27 years of experience across industry and professional services. He specialises in corporate governance, risk management and strengthening business process and controls
- His experience spans a wide variety of industries including, retail, consumer goods, oil & gas, construction & infrastructure, banking & finance



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- Yusuf is recognised as an IFRS specialist in the Middle East and consults on a variety of technical issues across all industries
- He has significant experience in the financial services and banking sector and has worked with many of the largest Banks and financial services companies in the Middle East region



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- Tariq has spent a great amount of time working in the Middle East region and Pakistan. He has extensive experience in managing complex international audit teams, focusing on banking and financial services
- He is the lead audit partner for Islamic finance and insurance
- Tariq is also the Head of Financial Services



Luke Ellyard

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- Luke specialises in the audits of banks and investment management firms
- He joined KPMG in the UAE in 2008, having previously spent nine years in KPMG London including a three year secondment to KPMG's Tokyo office
- He has hands on experience working with UAE banks and has led the audits for some of the largest banks in the country



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