Preparing Your IFRS 9 Disclosure

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- **Offsetting** is **either required or not permitted** depending on the circumstances.
- IFRS 7 requires disclosures about:
  - The **significance** of financial instruments to financial position and performance.
  - The **nature and extent of risks** arising from financial instruments.
- IFRS 7 requires **qualitative and quantitative disclosures** about credit, liquidity and market risks.
- Specific requirements apply for disclosures about **hedge accounting, impairment, offsetting and transfers** of financial assets.
- **Fair values** are generally required to be disclosed for financial instruments measured at **amortised cost**.
- **Carrying amounts** for all the financial assets / liabilities stated at FV

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IFRS 9 promises to have a marked effect on banks' **financial results** and it is becoming clear that it will have an **equally significant impact on supervision**. In particular, the quality of IFRS 9 implementation will affect several important elements of the **Supervisory Review and Evaluation Process (SREP)**. To avoid problems, banks need to ensure they are keeping a close eye on **IFRS 9's qualitative requirements, not just its quantitative effects.**

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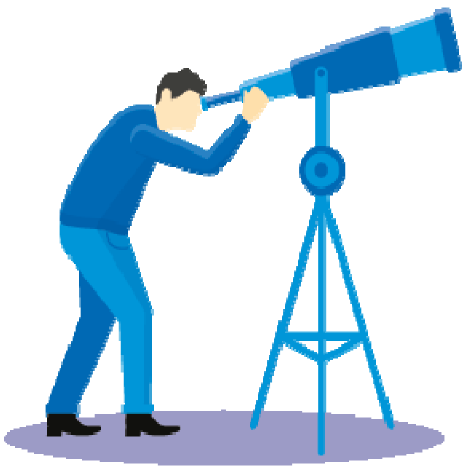
Additional disclosure requirements arise principally in following areas:

- Investments in equity instruments designated as **FVOCI**

- Impairment including:
  - **Credit risk management**
  - **Quantitative and qualitative information** about amounts arising from expected credit losses ***(ECLs)***
  - **Credit risk exposure**



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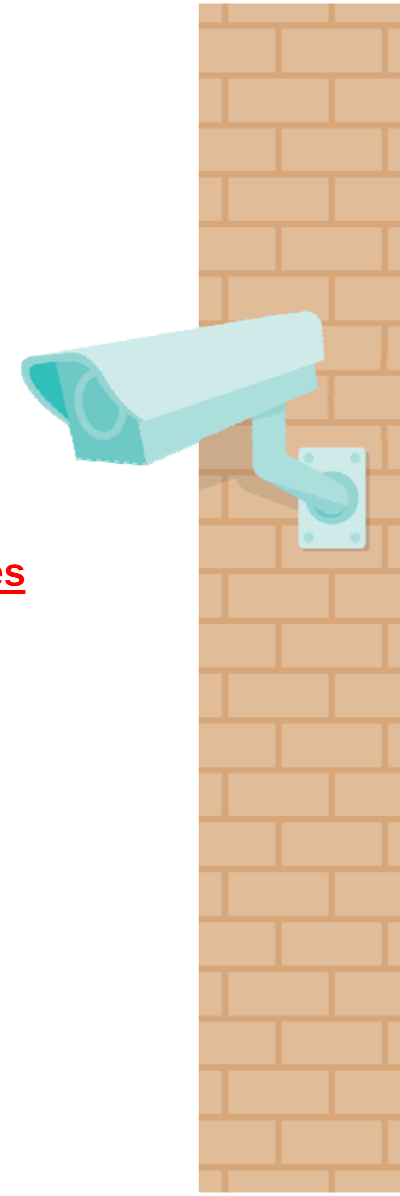
To enable users to evaluate:

<u>Significance of financial instruments</u> for the entity's financial position and performance.

<u>Nature and extent of risks</u> arising from financial instruments

How the entity **<u>manages those risks</u>**.



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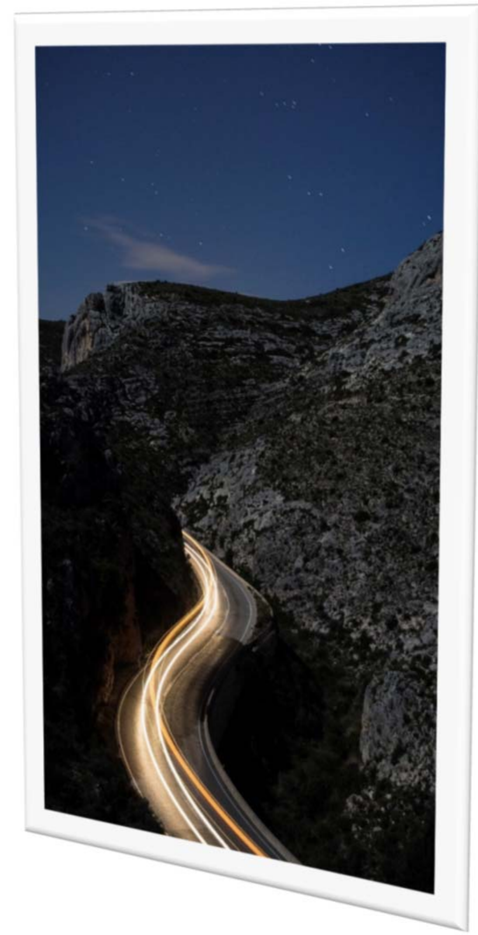
Disclosures for each class of financial assets and financial liabilities:

- **Previous category** and **carrying amount**

- **New category** and **carrying amount**

- **Carrying amount** of any FA&FL **previously designated as** measured at **FVTPL** **but** are no longer so designated

- **Reasons** for any **designation or de-designation** of FA&FL as measured at FVTPL.



Reclassification		Disclosures
From	To	
FVTPL	Amortized Cost	❖ Fair Value at reporting date ❖ Fair value gain or loss that would have been classified in profit or loss or OCI if reclassification was not made
FVOCI	Amortized Cost	
FVTPL	FVOCI	
FVTPL	Any other measurement	❖ IRR determined as at date of initial application ❖ Interest income/ expense recognized during the year

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2017.

In millions of euro	***Note***	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets					
Interest rate swaps used for hedging	*24*	Fair value – hedging instrument	Fair value – hedging instrument	131	131
Forward exchange contracts used for hedging	*24*	Fair value – hedging instrument	Fair value – hedging instrument	352	352
Other forward exchange contracts	*24*	Held-for-trading	Mandatorily at FVTPL	89	89
Sovereign debt securities	*24*	Held-for-trading	Mandatorily at FVTPL	591	591
Corporate debt securities	*24, X(v)(a)*	Available-for-sale	FVOCI – debt instrument	373	373
Equity securities	*24, X(v)(b)*	Available-for-sale	FVOCI – equity instrument	511	511
Equity securities	*24, X(v)(c)*	Designated as at FVTPL	Mandatorily at FVTPL	254	254
Trade and other receivables	*17, X(v)(d)*	Loans and receivables	Amortised cost	22,485	22,327
Cash and cash equivalents	*18*	Loans and receivables	Amortised cost	1,850	1,849
Corporate debt securities	*24, X(v)(e)*	Held to maturity	Amortised cost	2,256	2,243
Total financial assets				28,892	28,720

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The basic principle in IFRS 9 is retrospective application in accordance with **IAS 8** unless IFRS 9 contains more specific provisions for a particular aspect of the transition. **However, IFRS 9 contains significant exemptions** from retrospective application.

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Classification, measurement and impairment:

An **entity is permitted but not required to restate prior periods** when it adopts IFRS 9. This election to restate comparative information applies to the classification, measurement and impairment elements together - **i.e. if an entity chooses to restate comparatives, then it has to do so for all three elements.**

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If an entity **does not restate** prior periods, then it calculates the **difference between**:

- the **carrying amount** before the adoption of IFRS 9; and
- the **new carrying amount** calculated in accordance with the standard at the beginning of the annual reporting period that includes the date of initial application.

If a **difference exists**, then it is **recognised in opening retained earnings** (or another component of equity, if appropriate) of the annual reporting period that includes the date of initial application.

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Disclosures to evaluate **actual or potential effect of netting** arrangements relating to financial assets and financial liabilities.

- Quantitative information:
  - **Gross amounts** of financial assets and liabilities.
  - The **amounts that are offset** when determining the net amounts presented in the statement of financial position.
  - The **net amounts presented** in the statement of financial position.
  - The **amounts subject to an enforceable master netting arrangement** or similar agreement.
- Descriptions of **rights of set off**.

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For all reclassifications of financial assets in the current or previous reporting period, disclose:

- the **date of reclassification**;
- detailed **explanation of the change in the business model** and **a qualitative description of its effect** on the financial statements; and
- The **amount reclassified into and out of each category**.

Note that these disclosures are required in the ***period of reclassification and the period following*** *reclassification.*

Reclassification continued

From <u>FVTPL to amortised cost or FVOCI</u>, disclose:

- the <u>effective interest rate (EIR)</u> determined on the date of reclassification; and
- the <u>interest</u> revenue recognised.

Note that these disclosures are required for each period following reclassification until derecognition.

From <u>FVOCI to amortised cost, or FVTPL to amortised cost or FVOCI</u>, disclose:

- the <u>fair value of the financial assets</u> at the reporting date; and
- the <u>fair value gain or loss</u> that would have been recognised in profit or loss or OCI during
- the **<u>reporting period</u>** if the financial assets had not been reclassified.

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- Information about an entity's **credit risk management** practices and how they relate to the **recognition and measurement of ECL** – including the **methods, assumptions and information** used to measure ECL.
- **Quantitative and qualitative information** to evaluate the amounts in the financial statements arising from **ECL – including changes** and the **reasons** for those changes, in the amount of ECL.
- Information about an **entity's credit risk exposure** – including significant **credit risk concentrations**.

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For trade and lease receivables, and contract assets for which the loss allowance is always equal to **lifetime ECL, reduced disclosures** apply.

- a reconciliation of **movements in loss allowances**;
- an explanation of significant **changes in gross carrying amounts**; and
- **information about credit risk exposures and concentrations**.

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Explain **credit risk management practices** and **how they relate** to the recognition and measurement of ECL such that a financial statement user can understand and evaluate:

- how the **entity determines whether the credit risk** of financial instruments **has increased significantly** since initial recognition, including whether and how:

- financial instruments **are considered to have low credit risk**, including the classes of financial instruments to which the **low credit risk exception** has been applied; and

- the presumption that financial assets with **contractual payments more than 30 days past due have a significant increase in credit risk has been rebutted**;

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- the entity's **definitions of default** for different financial instruments, including the **reasons for selecting those definitions**;

- how **instruments are grouped if ECL** are measured on a **collective basis**;

- how the **entity determines that financial assets are credit-impaired**;

- the entity's **write-off policy**, including the indicators that there is no reasonable expectation of recovery;

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- how the **modification requirements** have been applied, including how the entity:

- determines whether the **credit risk of a financial asset that has been modified** while subject to a **lifetime ECL allowance has improved** to the extent that the loss allowance reverts to being measured at an amount equal to 12-month ECL; and

- monitors the **extent to which the loss allowance on those assets subsequently reverts** to being measured at an amount equal to lifetime ECL.

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ECL Methodology

Explain the **basis of the inputs**, **assumptions** and the **estimation techniques** used when:

- estimating **12-month** and **lifetime ECL**;
- **determining** whether the **credit risk of financial instruments has increased significantly** since initial recognition; and
- **determining** whether financial assets are **credit-impaired**.

Explain also:

- how **forward-looking information** has been incorporated into the determination of ECL, **including the use of macro-economic information**; and
- **changes in estimation techniques** or **significant assumptions** made during the reporting period and the reasons for those changes.

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Provide a **reconciliation** for **each class of financial instrument** of the opening balance to the closing balance **of the impairment loss allowance**.

The reconciliation is **given separately for loss allowances** against financial assets **and for provisions**, unless presented together and shows the **changes during the period** for:

- instruments **for which 12-month ECL** are recognised;
- instruments for which **lifetime ECL** are recognised,
- POCI assets

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- instruments for which **<u>lifetime ECL</u>** are recognised, separately for:

  - financial instruments that are **<u>not credit-impaired</u>**;

  - financial assets that **<u>are credit-impaired</u>** at the reporting date, **<u>but are not purchased or originated credit-impaired (POCI)</u>** assets; and

  - **<u>trade receivables</u>**, contract assets or lease receivables for which the **<u>loss allowances are always measured as lifetime ECL</u>**.

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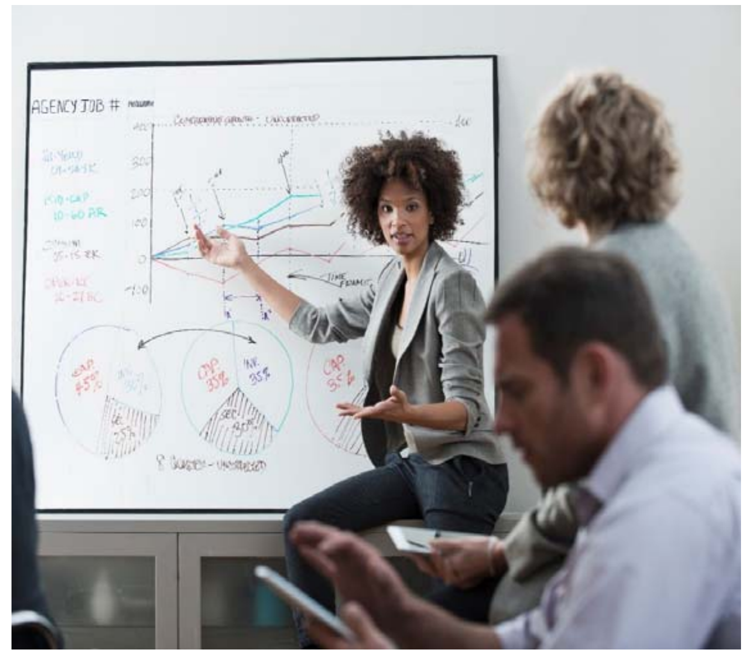
For **financial instruments** that are **subject to the impairment requirements** of IFRS 9, **Disclose** for each class of financial instrument:

- the **amount that best represents** the entity's **maximum exposure** to credit risk at the reporting date, **without taking account of any collateral** held or other credit enhancements;

- a **narrative description of collateral held as security** and other credit enhancements;

- **quantitative information** about the collateral held as security and other credit enhancements – e.g. **quantification of the extent** to which collateral and other credit enhancements **mitigate credit risk** – for financial assets that are credit-impaired at the reporting date.

- IFRS 7 requires disclosure of **fair values for each class** of financial assets and liabilities with the **following exceptions**:
  - When the **carrying amount is a reasonable approximation of fair value**.
  - For a **contract containing a discretionary participation feature** (as described in IFRS 4) if the **fair value of that feature cannot be measured** reliably.



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The **FV** of a financial instrument on initial recognition **may differ from the transaction price**.

If FV is **neither** evidenced by a quoted price in an active market for an identical asset or liability **nor** based on a valuation technique that uses only data from observable markets.

The following disclosures are required:

- **Accounting policy** for subsequently recognising the difference in PL

- Aggregate difference **yet to be recognised** in PL at the beginning and end of the period.
- A **reconciliation of changes** in this difference during the period.

- **Why the transaction price is not the best evidence** of the fair value, including evidence that supports the fair value.

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- **<u>Credit risk</u>**: Risk that one party to a financial instrument **will cause a financial loss** for the other party by failing to discharge an obligation.

- **<u>Liquidity risk</u>**: Risk that an entity will encounter **difficulty in meeting obligations** associated with financial liabilities that are settled by delivering cash or another financial asset.

- **<u>Market risk</u>**: Risk that **fair value or future cash flows** of a financial instrument **will fluctuate** because of changes in market prices (includes currency, interest rate and other price risk).

- Other types of risk.

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An entity discloses for each type of risk:

- **Exposure** to the risk and **how it arises**.

- Entity’s **objectives, policies and processes** for managing the risk.

- **Methods used** to measure the risk.

Any changes in the above are disclosed.

Quantitative disclosures

An entity discloses for each type of risk:

- Summary **quantitative data** based on information provided **internally to KMP**.

- Specific detailed disclosures in IFRS 7.35A-42.

- **Concentrations** of risk.

<u>If quantitative data at end</u> of reporting period **<u>are unrepresentative</u>** of entity's exposure to **<u>risk during the period</u>**, **<u>further representative information</u>** is disclosed.

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- **<u>Market risk</u>**:
  - **<u>Sensitivity analysis</u>** showing how PL and equity would have been affected by **<u>changes in the relevant risk variable</u>**.

- **<u>Liquidity risk</u>**:
  - **<u>Maturity analysis</u>** for financial liabilities based on remaining **<u>contractual</u>** maturities.

Specific quantitative disclosures (2)

- **Credit risk:**

Explanation of how <u>judgement</u> is exercised

- Credit risk management practices.
- How the **<u>entity determines if increase</u>** in credit risk is significant.
- **<u>Definition of ‘default’</u>** and reasons for selecting it.
- **<u>Inputs and assumptions used</u>** for impairment.
- **<u>Collateral and other</u>** credit enhancements obtained.

Quantitative disclosures

- Credit risk **<u>exposure</u>**.
- Quantitative (and qualitative) information about **<u>amounts arising from expected credit losses</u>**.
- **<u>Significant changes in gross carrying amounts</u>** of financial assets, information on collateral and modifications of financial assets.

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