On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments (IFRS 9, or the Standard). It brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. New classification and measurement requirements must be adopted with the other IFRS 9 requirements from 1 January 2018, with early application permitted.

**Credentials**

We have successfully analyzed impact of and designed models to comply with IFRS 9 - Classification and Measurement to both large financial institutions and smaller corporate clients.

Our client base is located across the globe.

Our strengths are absolute focus on your needs, deep subject matter expertise and our quick and targeted response to challenges relevant to classification and measurement.

Introduction of our services is just the beginning of what we strive for – a long-lasting relationship with continued support and high value added for you - our client.

**Application challenges**

Successful transition towards IFRS 9 will require an early start and analysis of the standard requirements including risk management strategy and objectives. The new Classification and Measurement principles brings a number of challenges in the implementation of the new standard:

► An entity needs to review its strategy for managing the financial assets and assess the impact of IFRS 9 requirements to the financial results, ratios, regulatory requirements and main KPIs.

► An entity needs to classify a debt instrument on the basis of its contractual cash flow characteristics if it intends to hold it outside FVPL measurement regime. It requires significant judgment as to whether these cash flows represent solely the payment of principal and interest thereon.

► In addition to that further judgment is required to assess business model for debt instruments and the assessment cannot be determined by a single factor or activity. Instead, the entity must consider all relevant evidence that is available at the date of the assessment.

► Assessment and ongoing monitoring of new transactions and their compliance with the business model used by the entity needs to be performed and its impact on possible reclassification of all affected assets.

► New disclosures will be required to qualitatively enhance business information provided by entities in their financial statements.
Where EY helps

**Phase I**

IFRS 9 brings new rules and perspectives to the classification and measurement of the financial instruments. Understandably, it will significantly change the current classification and measurement regime as the new classification will require to consider entity’s business model developed to manage financial instruments. The analysis must comprehend at minimum:

- Understanding of current portfolio management and measurement methods analysis with IFRS 9 impact
- Current financial instruments and its cash flow characteristics analysis
- Current business model analysis
- Analysis of changes in line with new IFRS 9 requirements

Our analysis will result in the evaluation whether or not the current classification and measurement principles set-up could be kept under IFRS 9 rules and our diagnostic report will describe the details of required changes. We will also help you to set-up the implementation timetables in line with IFRS 9 requirements and prioritize steps of implementation.

**Phase II**

Within the phase II we would go further and actually help you to identify changes needed to classification and measurement regime of existing financial instruments/portfolios to comply with the new requirements. We are also ready to support you with the redesign of the overall set-up and the implementation of the necessary changes.

Outputs of the phase will be the adjusted accounting methodology and Redesign recommendation report.

**Phase III**

In this phase we can help with the implementation of the new principles such as implementation of contractual CFs characteristics and business model tests, modification of management reporting and disclosures.

The phase III outputs may differ based on the actual scope of the work. However, generally they comprehend the implementation of the final report containing IFRS 9 classification and measurement requirements and preparation of internal manuals on classification and measurement methods.

**Phase IV**

The classification and measurement is a continual process and not a one-off action and we offer the relationship with EY to be the same. We are ready to assist or advice you also on the evaluation of the effectiveness and efficiency of the implemented classification process and optimization of existing methods. We will support you in IT/IS aspect of the classification and measurement. The performance of the business model and cash flow characteristics tests will require higher level of judgment. In case of new transactions / new portfolios we are ready to help you with appropriate classification.

We are prepared to discuss with you both existing and upcoming methods or development of the matter of any IFRS 9 requirements in general, which are changing rapidly in the current business environment, and analyze them in the light of standard requirements and opportunities as a matter of ongoing support.