IFRS 9 for banking industry the case for IFRS and FINREP taxonomies, critical assessment

Dr. Dirk Beerbaum, Deutsche Bank

Dr. Maciej Piechocki, BearingPoint

The opinions expressed in this presentation and on the following slides are solely those of the presenters and not necessarily their respective organizations

Overview on IFRS 9 framework: IFRS 9 vs. IAS 39

The banks have to comply to IFRS 9 by January 01, 2018
Parallel run of IFRS 9 framework starting from January 01, 2017 is strongly recommended

IAS 39 came under criticism for:

- Complex Framework: A very complex framework of accounting leading to inconsistent application
- Opinability: Various options under IAS 39 mean that comparability between companies is not easy
- Decision Making: For example in the case of loan loss provisioning IAS 39 does not provide the right solution (Incurred Loss Model)
- Not reflective on business activities: Accounting outcomes can seem to be disconnected with the business activities

IFRS 9 became the answer:

- Simple Framework: clear framework of classification and measurement requirements for financial instruments
- Reduced Opinability: simpler option based on the purpose of holding the assets as opposed to the intention of holding the individual asset
- Decision Making: reflect the effect of an entity’s risk management activities in the financial statements with more principle-based requirements
- Picturing Business activities: reflects how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets

Implementation effort to satisfy IFRS 9 requirements differs strongly among main areas

Implication for reporting

Classification and Measurement

- Classification dependent on business model
- Adjustments to derivation rules / NPP
- Revaluation at reclassification
- Adjustment business transactions/ Bookings
- Alignment of the accounts structure
- Interface extension

Hedge Accounting

- More permissible transactions
- Rebalancing
- Designation of net positions
- Additional disclosures in notes
- Layer Approach for FV hedges

Impairment

- Connection to risk management
- Alignment of account structure
- Interface extension
- Simulation / Backtesting
- Additional disclosures in notes / details for three stages

Expected implementation efforts

IFRS 9 semantics in IFRS and FINREP taxonomies

IFRS Taxonomy Reference	IFRS Taxonomy	FinRep	FinRep Reference
Effective 2018-01-01 IFRS 7.35I d Example, Effective	*Increase (decrease) through transfers, financial assets*	*Impairment or reversal of impairment (net) with*	Annex V.Part 2.77; IFRS 7.35B(b); IFRS 7.35J;
Effective 2018-01-01 IFRS 7.35I c Example, Effective	*Decrease through derecognition, financial*	*Changes due to repayments and disposals*	IFRS 7.35I; Annex V.Part 2.132
Effective 2018-01-01 IFRS 7.35I a Example, Effective	*Increase through origination or purchase,*	*Changes due to origination and acquisition*	IFRS 7.35I; IFRS 9.B5.5.25; Annex V.Part 2.131
Effective 2018-01-01 IFRS 7.35I c Example, Effective	*Decrease through write-off, financial assets*	*Write-off through decrease in allowance account*	Annex V.Part 2.78;IFRS 9.5.4.4;IFRS 7.35L; Annex V.Part
Effective 2018-01-01 IFRS 7.IG20B Example	Increase (decrease) through changes in models or risk parameters, financial assets	*Changes due to update in the institution's methodology for*	IFRS 7.35I; IFRS 7.35B(b); Annex V.Part 2.130
Effective 2018-01-01 IFRS 7.35I b Example	*Increase (decrease) through modification of contractual cash flows, financial assets*	*Impairment or reversal of impairment (net) without transfer between stages*	Annex V.Part 2.77; IFRS 7.35B(b); IFRS 7.35J; IAS1.82(ba); Annex V.Part 2.129
Effective 2018-01-01 IFRS 7.IG20B Example	Increase (decrease) through foreign exchange, financial	Amounts partially written-off directly to the	IFRS 9.5.4.4; Annex V.133, 134
Effective 2018-01-01 IFRS 7.IG20B Example	Increase (decrease) through other movements, financial	Other adjustments	IFRS 7.35B(b)
Effective 2018-01-01 IFRS 7.35H Disclosure, Effective 2018-01-01 IFRS 7.35I	Total increase (decrease) in financial assets	Closing Balance	n/a

Critical assessment of XBRL role in IFRS 9

- XBRL comes only in the very last mile of IFRS 9 implementation and thus has hardly any chance to bring value for the banking industry in IFRS 9 implementation
- Completely disconnected and partly conflicting semantics of DPMs and taxonomies creates rather confusion and increases effort for business areas and create difficulty for applying BCBS 239 consistently
- Differing and disaligned XBRL taxonomy architectures create additional costs for the banking industry and IT systems at banks and conflicting with applying BCBS 239 principles
- Lack of alignment of the roadmaps between DPM and taxonomy authors leads to issue with aligned project planning
- Individuality to old and new IFRS disclosures across banking industry is a challenge for XBRL as a standard (in financial reporting area)

Outlook and recommendations

- XBRL as technology needs to improve in terms of interoperability for same semantics and different reporting/regulatory needs (profiles are clearly wrong path here as not enough)
- Governance of identical semantics and its implementation in XBRL world needs to be reassessed and addressed properly
- XBRL depth of standardization (esp. for complex calculations) could be revisited (does not play any role in XBRL implementations today) to address

… as otherwise flexibility as XBRL great strength is becoming its greatest weakness