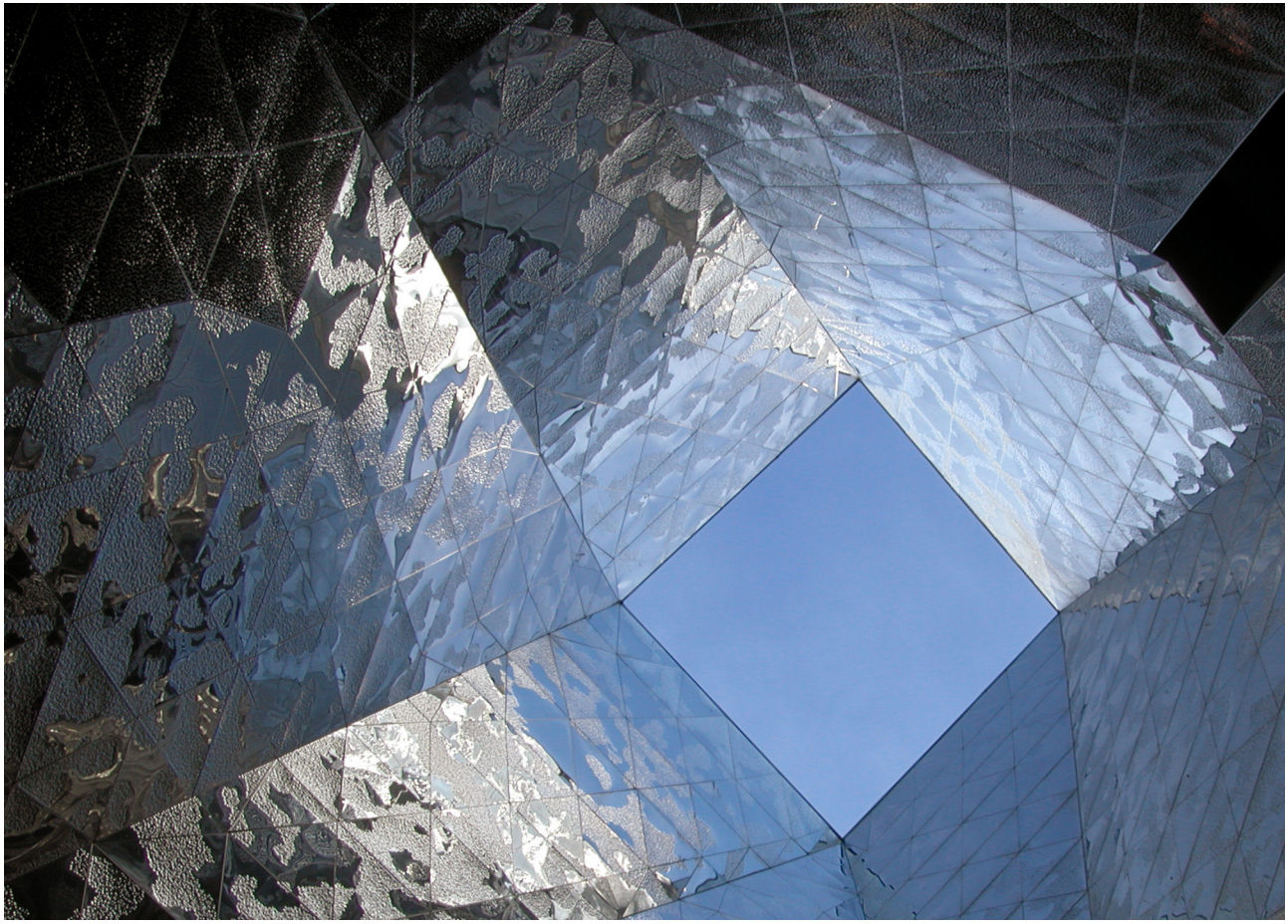
# HKFRS/IFRS9 IMPLEMENTATION

## Challenges for financial institutions



MAZARS

**The HKFRS/IFRS 9 standard fundamentally changes the way businesses classify, measure and recognise impairment losses on their financial instruments. An effective implementation of HKFRS/IFRS 9 has many potential benefits. Similarly, a low calibre implementation runs the risk of undermining confidence in an institution's financial results.**

**For institutions to successfully implement HKFRS/IFRS 9, they have to undertake a large multi-disciplinary project combining the skills of finance, risk and IT which present a significant challenge for companies, auditors and prudential regulators.**

# Overview

HKFRS/IFRS 9 Financial Instruments sets out new requirements. The requirements are divided into the three phases of the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting.

HKFRS/IFRS 9 (2014) supersedes HKAS/IAS 39 Financial Instruments: Recognition and Measurement.

## When will the new standard take effect?

HKFRS/IFRS 9 will be mandatory for annual reporting periods beginning on or after 1 January 2018, but institutions can implement it sooner.

## Challenges

New technical releases are never without challenges. Implementation of the new HKFRS/IFRS 9 requirements requires institutions to adapt their processes, models and information systems in a robust and effective manner to ensure the accuracy of data used in their financial reporting. This involves representatives from several functions including finance, risk, operations and IT.

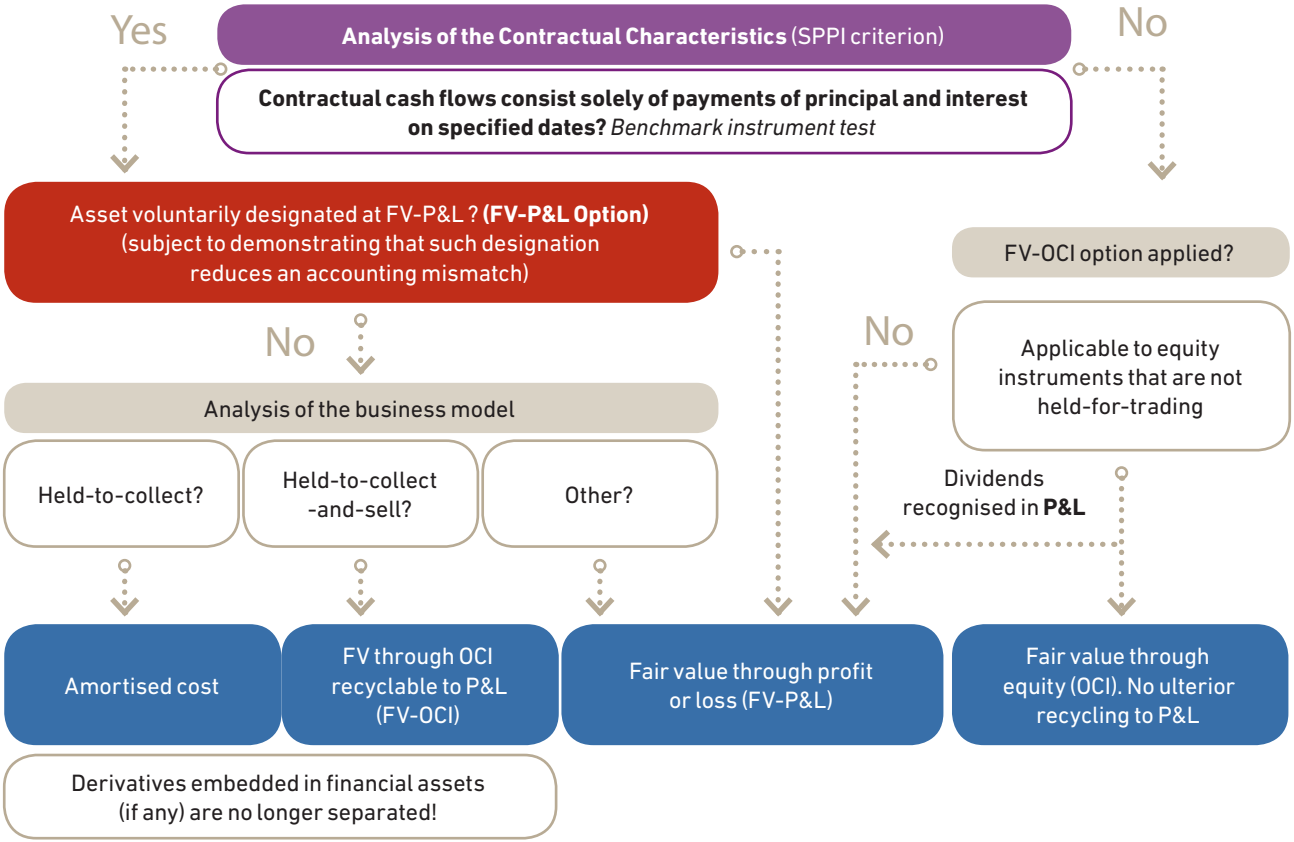
At Mazars, we have a keen awareness and expertise in solving the challenges this presents. Our experience shows that 'one model' does not fit all and we recognise the importance of bespoke implementation. Our experts are able to support you in optimising the implementation of HKFRS/IFRS 9 throughout your organisation.

Our specialists can support you in detailed implementation as well as overall project management and delivery. We can help you ensure the project is delivered on time, with regular reporting to key stakeholders, including your auditors.

# Classification and measurement of financial instruments

## KEY POINTS

HKFRS/IFRS 9 provides a new classification and measurement methodology for financial assets that will rely on the business model adopted by management. This is based on the 'solely payments of principal and interest' test (so-called 'SPPI test') and also on whether the fair value option has been applied.




HKFRS/IFRS 9 also introduces new requirements for the accounting and presentation of financial liabilities, in particular for the changes in the fair value of an entity's own debt when the entity has chosen to measure that debt at fair value under the fair value

## Classification and measurement (continued)

### How can Mazars help?

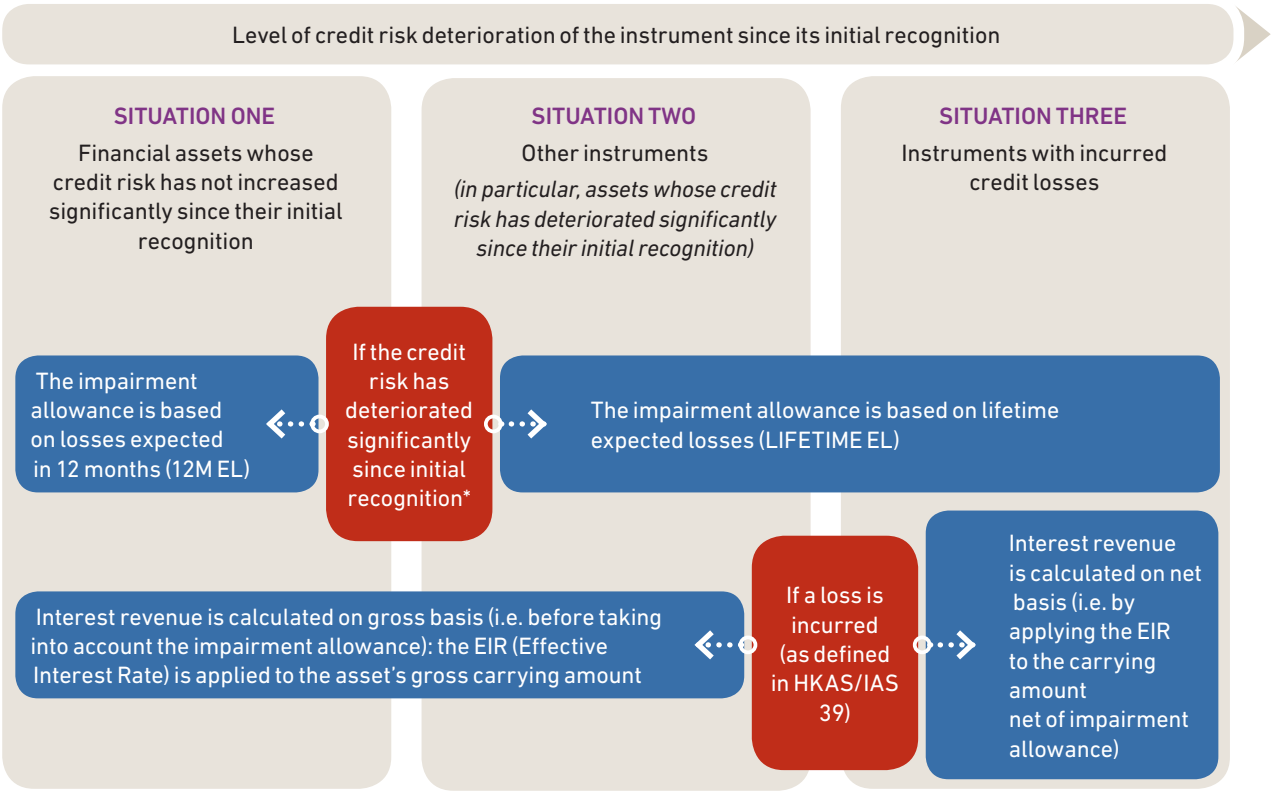
- Providing workshops to help you understand the changes and how they will affect your organisation
- Helping you identify the impact and select the best options for the:
  - identification of the business models applicable to your portfolios and sub-portfolios of assets;
  - critical assessment of eligibility to the SPPI test;
  - identification of the disclosures to be provided in the financial statements and identification of the systems collecting this information; and
  - simulation of the impact of classification and measurement
- We have specialist in-house qualitative and quantitative tools developed for HKFRS/IFRS 9 classification and measurement.

# Impairment of financial assets

## KEY POINTS

The impairment model under HKFRS/IFRS 9 is moving from 'incurred loss' to 'expected loss'. This should help investors gain a better picture of the risks institutions face in regards to potential losses on financial assets, financial guarantees, loan commitments and lease receivables.

Institutions will have to initially recognise an impairment charge for the 12-month expected losses for performing assets and the lifetime expected losses for non-performing assets.




* the standard contains a practice of expedience for assets having low credit risk that may be maintained in Category One even following a significant deterioration in credit risk

# Impairment (continued)

## How can Mazars help?

- Providing workshops to understand the changes and how they affect your organisation
- Helping you implement the new methodology by:
  - defining and creating methods for calculating expected losses;
  - reviewing the criteria and their calibration for the allocation stage;
  - reviewing or developing a collective provision methodology;
  - simulating potential impacts;
  - adapting the processes and systems to capture the information necessary to apply the new impairment requirements;
  - discussing the advantages of developing an impairment calculation; and
  - identifying disclosures to be provided in the notes and identification of systems collecting this information
- We have specialist quantitative and qualitative in-house tools developed for HKFRS/IFRS 9 impairment to assist you with your calculations.

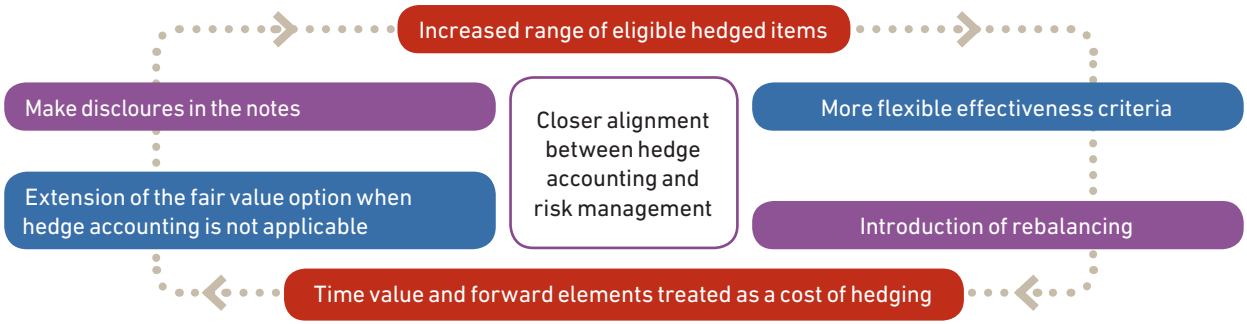
# Hedge accounting

## KEY POINTS

The new model moves from a rule base approach to a principles-based approach that aims to align accounting more closely with risk management activities. It enables entities to use information produced for risk management purposes as a basis for hedge accounting.

HKFRS/IFRS 9 retains fair value hedges, cash flow hedges and net investment hedges as type of hedge accounting relationships.

The new provisions of HKFRS/IFRS 9 on micro-hedging are optional pending the publication of the new macro-hedging standard.




## How can Mazars help?

- Identifying the micro-hedging relationships/situations which currently exist in the group.
- Identifying the existing undocumented economic hedges (trading or use of the fair value option) and the ability to document the volatility or potential volatility under HKFRS/IFRS 9.
- Identifying whether the hedge accounting relationship abandoned in 2005 due to HKAS/IAS 39 could be documented under HKFRS/IFRS 9.
- Ensuring the consistency of the financial information provided if the disclosures comply with HKFRS/IFRS 9 while the hedge accounting is still governed by HKAS/IAS 39.

# Our tools

Mazars offers both qualitative and quantitative tools to support institutions' HKFRS/IFRS 9 implementation:

## Financial Reporting support tools:

- Detailed training material
- Questionnaire and interview guide for the business model assessment
- Questionnarie and decision trees for the SPPI test
- An IFRS 7 checklist

## Quantitative support tools:

- SPPI tool
- Tool for simulating the 12 month expected losses and lifetime expected losses.
- Valuation Tool for financial instruments measured at fair value.
- Computation tool for financial instruments measured at amortised cost.

# HOW TO CONTACT US

Should you require any further information, please do not hesitate to contact us.

**Stephen Weatherseed**
Managing Director
**T:** (+852) 2909 5699
**E:** stephen.weatherseed@mazars.hk

**Pierre Latrobe**
Director
Financial Services
**T:** (+852) 2909 5572
**E:** pierre.latrobe@mazars.hk

The content of this newsletter is only for general guidance on matters of interest and is not meant to be comprehensive. The application and impact of laws can vary widely based on the specific facts involved.

## OUR EXPERTISE

With extensive breadth and depth of experience working with the financial services industry, our team can provide advisory and tailored support services to ensure your compliance with International Accounting Standards and industry best practices.

We have supported numerous technical projects, including IFRS conversions and HKFRS/IFRS 9 implementation with large financial institutions but also small and medium size banks in regards to the following HKFRS/IFRS 9 work streams, including:

- diagnostic and accounting analysis in regards to the HKFRS/IFRS 9 (classification and measurement, impairment and hedge accounting) as well as disclosures;
- design of the future state;
- implementation and parallel run to support the adaptation of the business processes and ensure effective operational implementation;
- calculation of the impacts;
- credit risk modelling;
- project management; and
- change management including training and internal communication.

# Mazars, a credible partner

## ABOUT MAZARS

As an integrated, global firm, Mazars brings together the experience its professionals have gained through working across the world, on assignments for banks, insurance companies and investment firms of all sizes and structures. We are accessible to our clients; combining a partner-led service with the continuity of support from a team dedicated to the financial services sector.

This structure and approach provides clients with tailored support and bespoke solutions from senior and experienced teams. Our advice takes account of local issues and is more widely informed by integrated, global teams of specialists with extensive experience of delivering cross-border projects and process improvements.

Experience, knowledge, technical excellence and client service are the foundations of our approach and we are ideally placed to help you through your day-to-day financial reporting challenges.

## MAZARS GLOBALLY

