Chatham Financial

Transitioning from IAS 39 to IFRS 9

How ready are you?

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Transitioning from IAS 39 to IFRS 9

1. *IFRS 9 Snapshot*
2. *Key implementation considerations*
3. *Implementation timeline*
4. *Lessons learned*
5. *The joys of hedge accounting*

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IFRS 9 Snapshot

Classification and Measurement	• Principle-based • Driven by business model and nature of cash flows • Own credit gains/losses presented in OCI • FVOCI measurement category • Different models for assets and liabilities
Impairment and Expected Credit Losses	• Forward-looking: Move from incurred loss model to expected loss model • Earlier recognition of expected losses • Differentiates risk for exposures that have exhibited deterioration (3-stage approach)
Hedge Accounting	• Closer alignment between risk management and accounting • Bright line effectiveness tests no longer required • Ability to designate aggregate exposures • Ability to designate risk components of non-financial items • Cost of hedging approach

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Key implementation considerations

How will I integrate risk and finance?

- Enterprise-wide impact
- Effective communication – Right hand talking to left hand
- Financial data + Risk data + Macroeconomic data = ??
- Consider single reporting platform overlay
- Proper change and access controls

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Key implementation considerations

How will I source necessary data under IFRS 9?

- Not all data easily available
- Establish automated mechanism to collect data
- Leverage off data already reported via regulatory or capital submissions
- Timely data reconciliation

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Key implementation considerations

Continuing under the new regime

- Educate the Board and Audit Committee
- Educate and train *all* staff
- Maintain all systems and processes
- Avoid manual solutions as far as possible

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IFRS 9 Transition and Implementation Timeline

	Work Streams	2016	2017			
		Q4	Q1	Q2	Q3	Q4
PHASE 1	**PRELIMINARY CURRENT STATE ASSESSMENT** Review current classification and measurement, reserves, and impairment policies, procedures, and models Identify the impact of adoption of IFRS 9 on current state Draft IFRS 9 implementation plan					
PHASE 2	**FINALIZE UNDERSTANDING OF CURRENT STATE ASSESSMENT** Finalize review of all areas impacted by IFRS 9, including derivatives Update the plan based on finalized current state assessment					
PHASE 3	**DEFINE THE DESIRED FUTURE STATE** Define modeling assumptions, evaluate system data/ calculation needs, and review documentation Document gap analysis and detailed implementation plan					
PHASE 4	**IMPLEMENTATION** Write new and/or update accounting policies and train staff Assist in the review of financial instruments Advise on disclosures Facilitate parallel financial close dry-runs					PARALLEL RUN
	Resolve outstanding issues					GO LIVE

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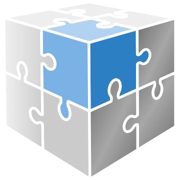
Lessons learned

- Early planning
- Adequate man power and capacity allocated
- Buy-in and proper mandate from senior management
- Appropriate staffing of implementation committee
- Do not underestimate the impact of systems
- Timely auditor involvement
- Hedge Accounting



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Transition for hedge accounting

Default approach:
Prospective application of IFRS 9 and no restatement or comparative disclosures

Continue hedge accounting if IFRS 9 requirements are met at transition date **after** rebalancing, if applicable.

Exception to default approach:
Retrospective application for risk components of hedging instruments excluded from hedging designation

Time value of options:

- Must be applied retrospectively

Forward points or FX basis spread:

- Policy choice to apply prospectively or retrospectively
- All or none election

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Concluding remarks

- ✓ *IFRS 9 Snapshot*
- ✓ *Key implementation considerations*
- ✓ *Implementation timeline*
- ✓ *Lessons learned*
- ✓ *The joys of hedge accounting*

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