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# IFRS 9 FINANCIAL INSTRUMENTS

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# CONTENT

## 1 OVERVIEW

- IFRS 9 – Financial Instruments, provides guidance on the classification and measurement of financial instruments and includes new guidance on hedge accounting. The credit loss model in IFRS 9 requires financial institutions to make provision for future losses (expected credit loss model - ECL), instead of making provision only for losses have been incurred.

## 1 OVERVIEW *(cont.)*

- International financial reporting standards IFRS 9 was issued on July 24, 2014 and takes effect for fiscal years starting from January 1, 2018;
- Alternative Standard: IAS 39 – Financial Instruments: Recognition and Measurement;
- According to the Vietnamese Accounting Standards system (VAS), there is currently no standard corresponding to IFRS 9.

# 1 OVERVIEW *(cont.)*

- Vietnam Financial Reporting Standards VAS has not yet updated relevant standards to protect banks against financial risks.

- According to the Project to apply international financial reporting standards in Vietnam approved by the Ministry of Finance in March 2020, from 2025, businesses will be forced to apply IFRS and IAS standards, of which There is IFRS 9. Therefore, banks and credit institutions need to quickly update this standard according to the correct roadmap.

## 2 SCOPE

- IFRS 9 applies to all financial instruments except: Investments in subsidiaries, associates and joint ventures.


## 3 GENERAL EFFECTS

- ❑ Changes the way financial assets are classified and measured and includes new guidance on hedge accounting;
- ❑ Change the way banks make provisions for their financial assets;
- ❑ Changes in credit risk models, enhanced governance and control of accounting processes, as well as closer coordination between risk and finance functions;


## 3 GENERAL EFFECTS *(cont.)*

- Support to prevent bad debt and financial crisis;

- Increased volatility in credit costs. Reported ECL figures will be volatile due to the forward-looking nature of the model and banks are expected to focus on better credit cost management.

- Retail book credit costs will be higher. Banks will have to record higher credit costs for credit cards with large undisbursed limits and mortgage loans belonging to the bad debt group with long terms.

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# 4 DIFFICULTY IN APPLY IFRS 9

- Applying IFRS 9 is not easy. Especially the complexity of the ECL model when first applied can encounter many risks.

- **Some difficulties when applying IFRS 09:**

- More requirements on financial statement disclosures;
- Control stakeholder expectations;
- Reorganization;
- Impact assessment;
- Change systems and processes;
- Important judgments are required.

# 4 DIFFICULTY IN APPLY IFRS 9 (Cont.)

**1. More requirements on financial statement notes**

- Time to prepare financial reports is short but must still ensure the accuracy of reported information;

**2. Control stakeholder expectations**

- Right from the first days, it is necessary to deploy and explain to them the impacts and changes that may occur when applying IFRS 9;

**3. Reorganization**

- Realign business strategies and employee KPIs including employee retraining;

## 4 DIFFICULTY IN APPLY IFRS 9 (Cont.)

**4. Impact assessment:**

- Organizations need to assess the financial impact from the beginning and the impact of implementation on the financial reporting process;

**5. Change systems and processes**

- Changes organizations need include assessing data availability, modeling requirements, other potential improvements;

**6. Important judgments required**

- ECL's business model and expected credit losses need to be evaluated. This could lead to a complete review of current investments and credit strategies. management

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# 5 DIFFERENCE BETWEEN IFRS 9 AND IAS39

| Content | IFRS 09 | IAS 39 |
|---|---|---|
| **Asset classification** | 2 types, including:<br><br>1. Financial assets are then recorded at amortized cost;<br><br>2. The financial asset is then recorded at fair value. | 4 types, including:<br><br>1. Financial assets at fair value through business results;<br><br>2. Financial investments held to maturity;<br><br>3. Loans and accounts receivable;<br><br>4. Financial assets available for sale. |

# 5 DIFFERENCE BETWEEN IFRS 9 AND IAS39 (Cont.)

| **Content** | **IFRS 09** | **IAS 39** |
|---|---|---|
| **Provision** | Make provisions for future credit losses according to the ECL method. | Provision is only made for losses that have arisen as prescribed in IAS 39. |

# CONTACT US

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