IFRS 9:

Implementing the New Standard with Clearwater

IFRS 9:
THE NEW STANDARD

Introduction

IFRS 9 specifies the requirements for initial recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting. Therefore, it impacts the lifecycle of the investments starting from inception through to disposal.

IFRS 9 puts new pressure on investment data management, reporting, and disclosure. The Clearwater solution stands ready for these challenges and to help clients simplify the adoption of IFRS 9. Clearwater's platform is a multi-basis accounting system, meaning new accounting bases can run in parallel to existing requirements for a smoother transition.

This guide provides an explanation of the steps for implementing IFRS 9 with Clearwater. We also breakdown the changes coming with IFRS 9 with a detailed review of what insurers need to know to prepare.

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Implementation Process for IFRS 9 Adoption

After successfully transitioning a number of companies to IFRS 9, Clearwater has developed a standardised approach to help clients seamlessly migrate to the new standard.

Clearwater clients can work with their dedicated client services team to develop a plan for comparatives and initial classification and measurements, the two steps to adopting IFRS 9. Clearwater's solution is equipped with the data management and reporting tools needed to successfully adopt IFRS 9 and offers the flexibility to choose options that are right for your firm.

THE CLEARWATER SOLUTION FOR IFRS 9

STEP 1:

Comparatives

Although there is no prescriptive requirement to restate prior year comparatives, some Clearwater clients have chosen to do this. There are two options available for comparatives.

The first option is to use a ‘Transitional IFRS’ basis.

In this scenario, clients apply their IFRS 9 settings and upload their ECL allowances, a year ahead of full implementation. This allows clients to see what reporting under IFRS 9 will look like on their portfolios without needing to adjust their current ledger bookings. Because Clearwater supports multi-basis accounting, including IAS and IFRS, this accounting basis is pre-configured and ready to be applied to clients’ accounts in addition to any other required accounting bases.

The second option for clients is to apply a ‘conversion overlay’ to the comparatives and take no action on Clearwater.

This basis setting can be updated as of the IFRS 9 adoption date, allowing Clearwater to provide reporting under previous accounting rules (i.e IAS 39 or PSAK 55) ahead of adoption. This allows for zero interruption in the delivery and consumption of monthly general ledger files, which are typically delivered via FTP. The flexibility of the Clearwater platform allows users to view datapoints in different accounting bases and for comparative time periods, all in the same report.

STEP 2:

Initial Classification and Measurement

Clearwater clients will perform a one-time exercise to reassess the default measurement and classification setting applied to their IFRS bases across all accounts.

Clearwater supports the three IFRS 9 classifications: FVTPL, FVTOCI and amortised cost.

Clients can select the appropriate classification for the business model of each portfolio or account and apply overrides as granular as lot-level for assets which fail the SPPI test.

Unrealized gains and losses are then treated accordingly, either through other comprehensive income or profit and loss.
After the completion of this initial implementation process, the SPPI test is performed on an ongoing basis and the ECL allowances are applied periodically to all fixed income assets which are held at FVTOCI or amortised cost. The details of these continual requirements and how Clearwater helps clients to meet them are covered in detail in this eGuide.

Read our partner case study to learn how one insurer prepared for IFRS 9 ·›

TAKE A CLOSER LOOK

The following pages provide a detailed description of the changes to expect with IFRS 9, potential challenges, and how Clearwater can help.

CLASSIFICATION AND MEASUREMENT

Find Your New Classification

IFRS 9 requires financial instruments to be classified as Amortized Cost (AC), Fair Value through Other Comprehensive Income (FVOCI), or Fair Value through Profit and Loss (FVTPL).

There are two tests, Business Model at portfolio level and Cash Flow Test at security lot level, used to determine the correct category for classification and measurement of financial instruments.
Both Amortized Cost and FVOCI classifications for debt-related instruments are in scope of the Expected Credit Loss (ECL) requirements of the standard.

Read how Clearwater can help ›

Classification

- Amortized Cost
- Fair Value Through Other Comprehensive Income
- Fair Value Through Profit and Loss (new residual category)

Business Model Test

- Intend to Hold-To-Collect
- Intend to Hold-To-Collect-and-Sell
- Primary intent is to realize cash flows through sales. Any contractual cash flows are incidental.

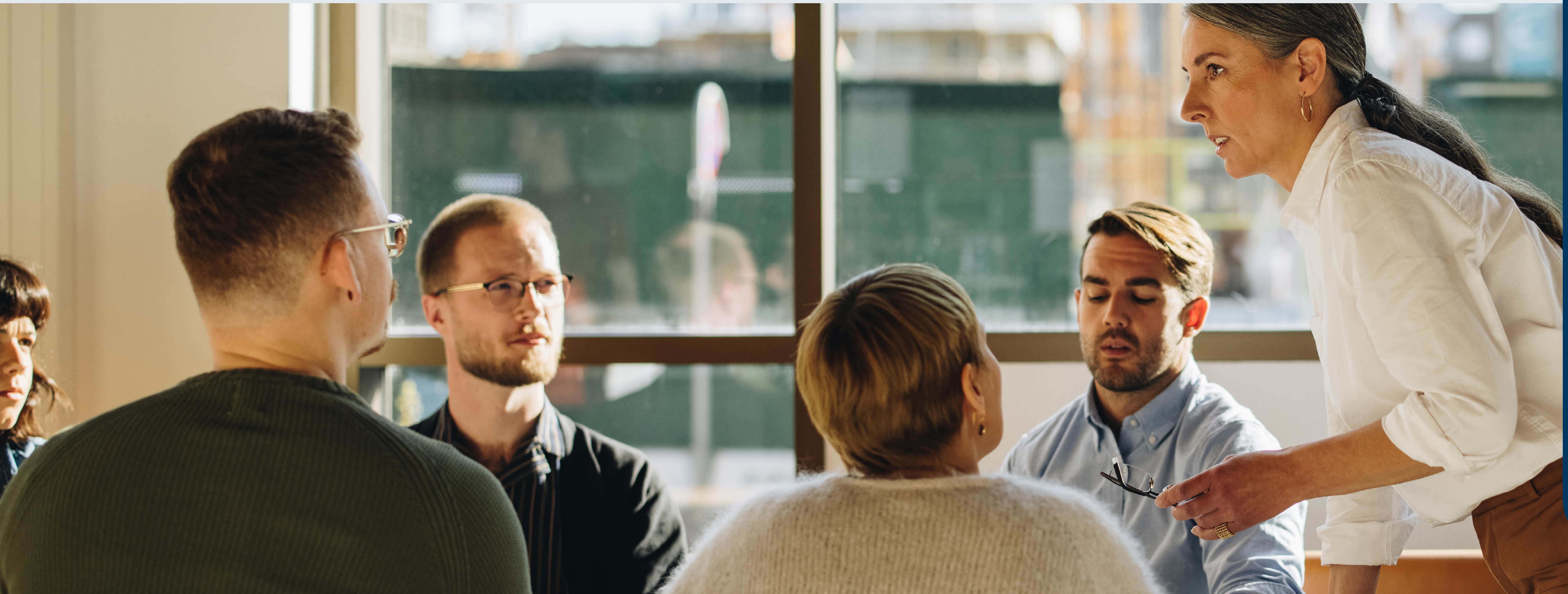
Cash Flow Test

- Cash flows must pass the SPPI test to be classified at amortized cost or FVOCI
- Cash flows that do not pass the SPPI test must be classified as FVTPL

CLASSIFICATION AND MEASUREMENT

The Challenge: Accuracy

A key challenge faced by organizations is the accurate classification and measurement of the financial instruments, which is imperative for proper adoption of IFRS 9.



How Clearwater Can Help

Clearwater Analytics has helped investment managers and early adopters in the insurance market complete the implementation of IFRS 9 by delivering:

- Integration with third parties for SPPI data or support for client defined parameters
- New accounting option to properly manage the IFRS 9 requirement of equity securities to be recognized at FVTPL
- Initial classification changes will be accounted for through Retained Earnings upon adoption
- New lot-level option to classify financial instruments, including equities between FVOCI and FVTPL

IMPAIRMENT

Think Forward-Looking

IFRS 9 fundamentally changes how companies view and respond to impairment by introducing a forward-looking approach to identify credit impairments over the lifetime of the financial instruments.

Implementation of the new ECL model is required under this standard. It classifies the financial instruments in one of the three stages and determines both the amount of ECL as well as how interest income should be recognized.

Read how Clearwater can help ›

Stage

Stage 1
Performing

Stage 2
Significant increase in credit risk (SICR) since purchase

Stage 3
Impaired

Amount of ECL Recognised

- 12-month ECL for Stage 1
- Lifetime ECL for Stage 2 and 3

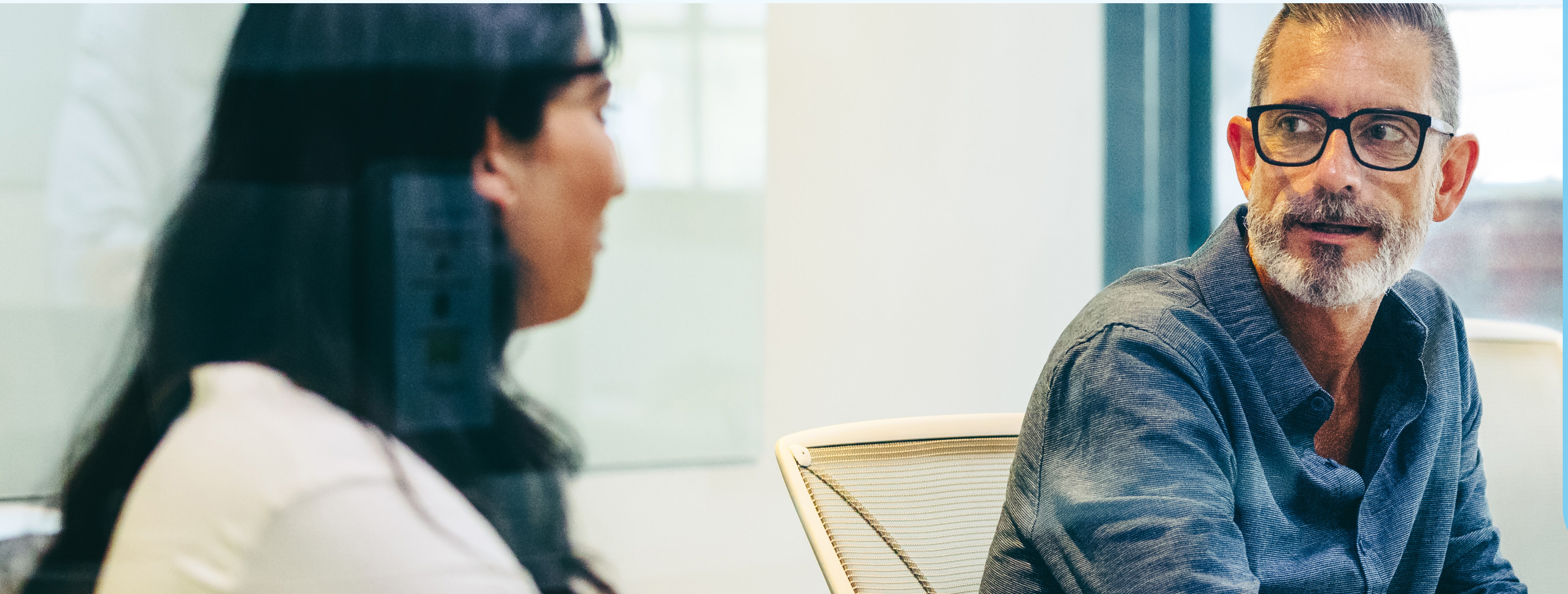
Recognition of Interest

- Interest on gross carrying amount for Stage 1 and 2
- Interest on net carrying amount for Stage 3

IMPAIRMENT

Get Your Data Together

Multiple datapoints are required to correctly determine the stage and therefore the calculation of impairment of the financial assets. This can be challenging if there are numerous sources and reporting platforms for different datapoints.



How Clearwater Can Help

In addition to providing an aggregated and validated dataset on a single platform, Clearwater can help in the following ways:

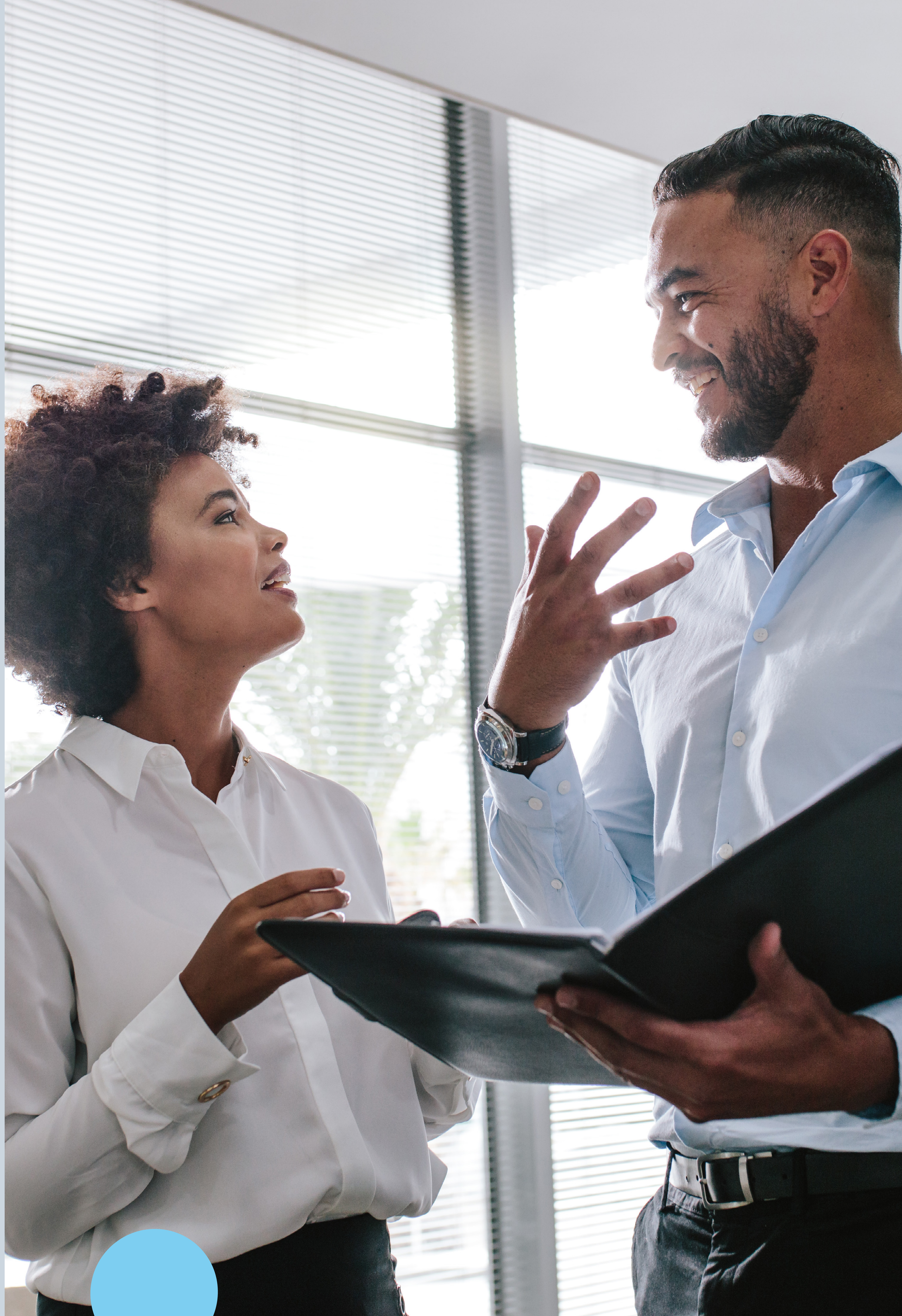
- Integration with third parties for ECL data or support for client defined ECL
- "OCI Impairment Allowance" account for the allowance offset to equity
- General ledger support for accounting entries and new balance
- New credit rating at time of purchase to review change in rating from initial recognition

REPORTING AND DISCLOSURES

It's All in the Details

IFRS 9 requires more granular accounting disclosures than its predecessor. Some of the detailed reporting requirements include, but are not limited to, the carrying amount for financial instruments measured at FVTPL and FVOCI, equity instruments designated at FVOCI, any reclassifications, disclosures around managements risk, management practices, and how ECL is determined, reconciliation disclosure of movements in loss allowances and transition disclosures.

Read how Clearwater can help ›



REPORTING AND DISCLOSURES

The Details Are in the Data

Meeting the detailed reporting and disclosure requirements is a demanding exercise in terms of aggregation of all the required data, validation of data, and viewing comparatives over a period of time – all in one place.

How Clearwater Can Help

Clearwater's SaaS-based platform provides a view into all the required elements to meet the detailed reporting and disclosure requirements, including:

- View into changes impacting retained earnings upon first time adoption
- Availability of new IFRS 9 disclosures for Allowance, Staging, and Carrying amount
- View into IFRS 9 datapoints such as security classifications and sub-classifications, stage, and ECL amounts for all instruments held in investment portfolios

CASE STUDY

Clearwater, in partnership with J.P. Morgan Asset Management, successfully laid the groundwork for an insurance client to prepare for IFRS 9. The two firms highlighted this success story in a recent case study.

Download the Case Study ›

Three Milestones for Preparation

To help this insurer stay on track, Clearwater and J.P. Morgan set three milestones:

1. The SPPI test: The insurer needed to be able to test whether the contractual cash flows generated by its financial assets were “solely payments of principal and interest” (SPPI) on the principal amount outstanding.

2. The impairment watchlist: IFRS 9 contains tighter credit loss rules, including a forward-looking impairment model (as opposed to the incurred loss model used in IAS 39). The watchlist is critical, enabling detailed portfolio analysis within tough financial reporting deadlines.

3. The ECL calculation: The expected credit loss (ECL) calculation required the insurer to follow technical accounting requirements and to ensure professional judgements were used to complete the impairment watchlist and SPPI testing.

Read the case study for a deeper dive into how all three milestones were achieved.

THE CLEARWATER SOLUTION FOR IFRS 9

There is still time to leverage Clearwater's single instance, multi-tenant model and get access to industry best practices before the adoption date of IFRS 9. Clearwater can handle the new classification and measurement needs required under IFRS 9, report on the expected credit loss calculations for impairment, including staging requirements, and manage the new reporting and disclosure requirements to help you seamlessly transition and comply with this new standard.

Speak to an Expert

Accurate, Trusted Investment Accounting, In Action – See It Live!
Request your custom consultation today.

See it Live ›

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