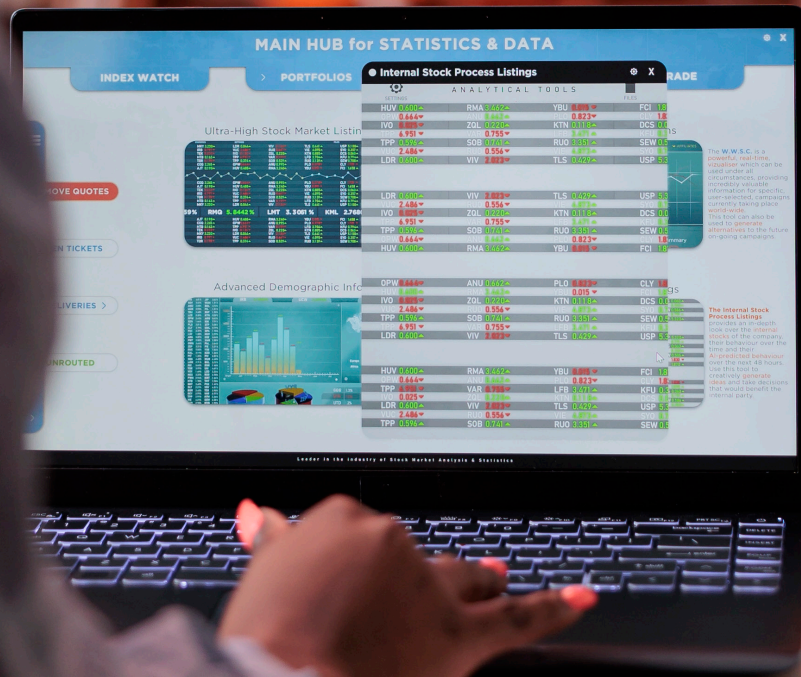


International Financial Reporting Standards 9



IFRS 09

Financial Instrument (ECL)

IFRS 9 (International Financial Reporting Standards 9) is a global accounting standard developed by the International Accounting Standards Board (IASB) that addresses the classification and measurement of financial instruments, as well as how to account for impairment of financial assets.

IFRS 9 introduced a new approach to accounting for credit losses on financial assets, such as loans and trade receivables. The concept of Expected Credit Loss (ECL) is a central feature of IFRS 9's impairment model. ECL represents the amount of loss that an entity expects to incur on a financial instrument over its lifetime due to default events.

The primary objective of IFRS 09

The Primary objectives of ECL are to;

- Ensure a smooth and effective transition from the incurred loss model to the Expected Credit Loss (ECL) model under IFRS 9
- Enhance the accuracy of credit risk assessment and provisioning for financial instruments
- Develop and implement reliable ECL models and methodologies that reflect the institution's risk profile and economic conditions
- Ensure compliance with IFRS 9 requirements, including enhanced disclosure standards
- Minimize disruption to daily operations during the implementation process

Why adopt it?

Organizations adopt IFRS 9 for several reasons, primarily related to the benefits that the standard offers in terms of improved financial reporting, enhanced risk assessment, and greater alignment with international accounting practices. Here are some key reasons why entities might choose to adopt IFRS 9:

- Improved Financial Reporting
- International Comparability
- Risk Management and Decision Making
- Consistency with Regulatory Requirements
- Investor Confidence
- Reduced Volatility
- Simplified Hedge Accounting

Regulatory requirement

Keeping in view the importance of the Standard, the SBP advised the banking industry to carry out a quantitative impact assessment of IFRS 9 on their financials along with the assessment of their readiness for its implementation. In view of the impact assessment and stakeholders' representation, it has been decided that the effective date of IFRS 9 implementation is January 1, 2024, for banks/DFIs/MFBs. As per SBP circular (BPRD Circular Letter No. 07 of 2023)

How can BDO help?

Our firm can provide you with a wide range of services, to assist you on your journey towards achieving ECL Implementation. These services include:

- IFRS 9 qualitative gap assessment
- Methodology development and setting IFRS 9 key assumptions and Risk Parameters such as Probability of Default, loss Given Default and Exposure at Default
- Quantitative financial impact assessment
- Compilation of key challenges and development of their resolution plan
- Determination of impact on regulatory capital
- Assistance in Preparation of Performa financial statements including IFRS 9 accounting policies
- Customized support on IFRS 9 technical interpretation areas and method used to develop Risk Parameters such as PDs, LGDs, and EADs etc
- Any other items applicable as per IFRS and SBP direction in this respect
- Development and handing over of the final product

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