

## IMPLEMENTATION CONSEQUENCES IFRS 9

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**Abstract.** In this article there are described good as well as bad consequences of implementation of the international financial reporting standard 9. There is shown the influence of the standard on banks, on the financial asset classification, revenue and loss volatility. As an example, all these changes would be shown on the mortgage case.

**Keywords:** international financial reporting standard 9, methodological problems of financial assets accounting, Basel committee, reserves.

The reforming problem of the Russian accounting system in accordance with the requirements of a market economy and International Financial Reporting Standards (IFRS), which is held by the credit institutions have been the subject of academic's debate for more over than 10 years. Generalized theoretical views of the national scientists allow us to conclude that there is no consensus on compliance degree of the Russian accounting regulations with the IFRS requirements. However, the domestic standards content also does not satisfy the professionals who use them in the formation of statements.

One of the most difficult modern accounting stages in credit institutions is the accounting of financial instruments. IFRS standards for financial instruments are the largest part of the whole statements. At the same time, they are the most discussed and debatable standards compared to others. Moreover, the financial instrument accounting affects the whole set of standards. This aspect in the accounting of credit institutions has been regulated by such standards as: IFRS 32 "Financial Instruments", IFRS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure".

The period after the financial crisis was characterized by increased interest in financial instruments. Nowadays, the standards which are governing these, or other accounting issues are changing rapidly. From 2018, all organizations that prepare international reporting apply the "new" standard IFRS 9 "Financial Instruments". Most of all, this change affected the banks, as they most often

work with companies in other industries with financial instruments.

The methodological problems of accounting for financial instruments lie in the fact that the tasks that need to be addressed when developing standards are quite contradictory. The requirements of IFRS are usually criticized for their complexity. However, the information presented in the accounting is often insufficient even with proper preparation and fulfillment of all requirements.

Nowadays, domestic banks rely on the standards of the Basel Committee in the formation of reserves. But IAS 9 has its own distinctive features.

The valuation classification is chosen at the time of recognition. Financial assets can be valued at depreciation costs with deduction of impairment losses; however, they can also be measured at fair value in the event of problems and contradictions in the financial asset management policies. Also, financial assets will be assessed at fair value in case of non-compliance with any of the specified conditions. For equity, valuation is carried out at fair value, change in this value is attributed to profit or loss. Changes in the value of equity assets may be included in "other comprehensive income" with the exception of dividends.

With the introduction of IFRS 9, amendments were also made to IFRS 7 regarding additional requirements for disclosing information on debt financial instruments.

The results of the comparison of the newly introduced standard and the RAS standards also showed how the introduction of IFRS 9 will affect domestic banks. According to the

results of the comparison, there are following differences: firstly, according to IFRS, the organization, creating reserves, focuses on the financial condition of the borrower, its ability to “generate” cash, and according to RAS, the emphasis lies on the borrower's assets, which she can realize in case of loan insolvency. When it comes to collateral for mortgages in the reserve's formation process, it is calculated both under RAS and IFRS. According to Russian requirements, the formation of reserves under RAS for the initial issuance of a loan is possible, but not according to IFRS. This is due to the fact that the cost of the loan includes the credit risks associated with the borrower. In this case, the amount of losses will be equal to the difference between the carrying and recoverable value, and under IFRS, vice versa. In addition, IFRS requires that macroeconomic factors be taken into account when calculating reserves, unlike Russian standards.

The introduction of a new standard can affect the bank's activities, both positively and negatively. Banks may face a number of changes. For example, due to the fact that new impairment accounting standards will become mandatory from 2018, however, they can be applied early. The application of IFRS 9 will impact not only the accounting methodology, but also the business processes of organizations.

This standard may also have an impact on the classification and measurement of financial assets. As a result, the volatility of equity, profits and losses of a credit institution over the period will change. As a result, the organization's performance indicators will change. The new approach should be synchronized with the current approach of banks to stress testing. The amount of created reserves will change following the change in the model of expected credit losses. This level will become highly dependent on the state of the economy, since the macroeconomic effects are taken into account in the new model of transition to IFRS 9. The system of estimating losses will also become much more complicated, and they will rely on large amounts of data to make forecasts. Experts believe that the amount of reserves will increase by 30-50% in terms of lending to SMEs, as well as in the

segment of corporate business. In certain areas (for example, retail lending and mortgages), an increase may occur by 80-150%, and in some segments will even reach 250%.

The above growth in the value of reserves largely depends on the quality and structure of the loan portfolio of a bank and on Russian specifics.

Let's consider at the example of a mortgage. Mortgage lending in Russia is characterized by a large proportion of the down payment (usually around 20%). The average expected share of loss of funds (LGD) in Russia is unlikely to be much greater due to the availability of collateral. Analyzing real estate in Russia, we see that the jumps are not inherent in this market - if there were drops, then they are insignificant and rare (no more than 20%). Thus, in our country, a serious increase in reserves for mortgage loans (by 80-250%) is not expected.

The next problem zone is an aggregated calculation which is based on big data. Banks will need to implement databases and other new systems, as well as controls over internal activities.

If banks do not delay the implementation described above, it will be possible to assess the impact of the new requirements, and based on this, credit organizations will develop a plan to mitigate the negative effects of innovations.

IFRS 9 places high demands on the accounting of forward-looking information, in order to obtain which business units and IT departments will be involved in the process. The first will be engaged in forecasting flows and calculating individual reserves; the second is the development of calculation modules and work with big data.

An important role will be played by the risk analysis department, on which, according to IFRS 9, reserves directly depend. Here it becomes necessary to create a structural unit that accumulates information from the credit and financial departments and business units in order to accurately determine the risks of financial instruments. The risk control department, in turn, will be obliged to develop reservation models and calculate the reserves themselves, directly interacting with the IT department.

Summing up, we can say that the transition to IFRS 9 can stabilize the banking system through a serious increase in reserves and, as a result, an increase in the financial stability of individual banks. However, financial institutions will have to face a number of difficulties. Possible negative impact of the growth of reserves on key performance indicators; there is a need to change the organizational structure of banks; creation of systems for aggregated calculation based on large databases. Many banks are at risk of facing the fact that their business models may turn out to be low profitable, if not unprofitable, which means that these players will have to leave the market. Some financial institutions will

come to the aid of shareholders or active intervention by the Bank of Russia will take place. For its part, the Bank of Russia may postpone the mandatory implementation, since there is a high probability that even systemically important banks could not have time to switch to IFRS 9 before the end of 2018. However, this is contrary to international standards, as IFRS around the world are designed to be united, with deviations from certain standards, these reports lose value. The way out of this situation is the abolition of the mandatory preparation of IFRS reporting for non-systemically important banks.

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### ПОСЛЕДСТВИЯ ВВЕДЕНИЯ МСФО 9

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*Аннотация.* В данной статье описываются аспекты введения международного стандарта финансовой отчетности 9, как положительные, так и отрицательные. Показывается потенциальное влияние на банки, на классификацию финансовых активов, изменение волатильности прибыли и убытков. В качестве примера, данные изменения будут рассмотрены на примере ипотеки.

*Ключевые слова:* международный стандарт финансовой отчетности 9, методологические проблемы учета финансовых инструментов, Базельский комитет, резервы.