

IFRS 9: IMPLEMENTATION ISSUES

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Abstract. *This article considers problems, which arise as a result of Russian accounting system reformation, which is held in accordance of the market economy needs as well as international financial reporting standards. Moreover, this article provides comparison of IFRS and RAS, potential financial statements areas for quality improvement.*

Keywords: *financial statements, IFRS 9, financial instruments, reserves formation, credit risks, financial assets valuation and classification, revenue and loss volatility.*

The problem of reforming the Russian accounting system in accordance with the requirements of a market economy and international financial reporting standards (IFRS) have already been the subject of debate by academics for more over than 10 years. The generalized theoretical views of domestic scientists allow us to conclude that there is no consensus on the degree of compliance of the Russian accounting regulations with the requirements of IFRS. However, the content of domestic standards also does not satisfy the specialists who use them in the statements preparation process.

One of the most difficult stages of modern accounting in credit institutions is the accounting of financial instruments. IFRS standards for financial instruments are the largest in content. At the same time, they are the most discussed and debatable standards compared to others. In addition, accounting for financial instruments affects not one, but a whole block of standards. So far, 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" [1].

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

affect the banks, as they most often work with companies in other industries with financial instruments.

The methodological problems of accounting for financial instruments are concluded in the statement that the tasks that need to be solved when developing standards are quite contradictory. Firstly, the requirements of IFRS are criticized for complexity, but on the other hand, the information presented in the accounting is often insufficient even when prepared properly and all requirements are implemented [2].

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

The most significant provisions of IFRS 9 are as follows: the initial measurement of financial assets at fair value, increased by the transaction cost; assets valuation is divided by 2 groups: depreciation and fair value. The valuation classification is assigned to the asset at the time of recognition. Liabilities 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 inconsistencies in the policy of financial asset management. Also, liabilities will be assessed at fair value in case of non-compliance with any of the specified conditions. For equity assets, 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 [5].

It is impossible to measure equity financial instruments at cost (IAS 39), but it is compensated when the value of the assets represents the "best estimate". All derivative financial instruments are measured at fair value, with the change attributable to profit or loss except for derivatives, which are used as hedging instruments (for them, accounting rules have not yet been established and IFRS 39 is applied).

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, the following differences were identified: 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 he can realize in case of loan insolvency. With respect to collateral for mortgages in the formation of reserves, it is calculated according to 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 book 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 may 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 have an impact not only on the accounting methodology, but also on the business processes of organizations.

This standard can also have an impact on the classification and measurement of finan-

cial assets. As a result, the volatility of profits and losses and the equity capital 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. Their 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. Also, the system for estimating losses will become much more complicated; for making forecasts, they will rely on large amounts of data. 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 it will even reach 250%.

The increase in reserves will be caused by the following factors:

- new requirements for the creation of reserves of previously unreserved portfolios;
- for high-risk assets, the expected loss will need to be calculated for the entire lifetime;
- the need to create reserves for off-balance sheet positions;
- the impact of macroeconomic events;
- calculation of reserves on an individual basis for several scenarios (including stress).

The above growth in the value of reserves depends largely on the quality and structure of the loan portfolio of a bank and on Russian specifics [3].

Consider 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 based on big data. Banks will need to implement databases and other new systems, as well as controls over internal activities [5].

If banks do not postpone 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.

The changes should concern the organizational structure of the bank. It should be noted that according to IFRS 9, the calculation of reserves implies the presence of a much more complex organizational structure of the company, which is not provided by the existing calculation method in Russia according to the Bank of Russia Regulation №254-P dated March 26, 2004 for possible losses on loans, on loans and equal debts". Today, in the formation of reserves in accordance with Russian accounting standards, only the credit and financial departments and the risk control department participate [3].

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 former will be engaged in forecasting flows and calculating individual reserves; the second is the development of calculation modules and work with big data.

Changes affect many aspects of accounting. For example, in terms of the reflection of active operations:

- provision (placement) of funds;
- liabilities on issued guarantees;

– securities transactions.

In terms of the reflection of passive operations:

- raising funds;
- issue and redemption (payment) of bonds, certificates, bills;
- the introduction of additional accounts for the adjustment of reserves [4].

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 it is highly likely that even systemically important banks may not have time to switch to IFRS 9 before the end of 2017. However, this is contrary to international standards, as IFRS around the world are designed to be united, with deviations from certain standards, this statement loses its value. The way out of this situation is the abolition of the mandatory preparation of IFRS reporting for non-systemically important banks [6].

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МСФО 9: СЛОЖНОСТИ ПРИМЕНЕНИЯ

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***Аннотация.** В данной статье рассматриваются проблемы, которые возникают в результате реформирования российской системы бухгалтерского учета согласно требованиям рыночной экономики и международным стандартам финансовой отчетности. Кроме того, автором проводится сравнение стандартов РСБУ и МСФО, анализируются потенциальные области для улучшения качества финансовой отчетности.*

***Ключевые слова:** финансовая отчетность, МСФО 9, финансовые инструменты, формирование резервов, кредитные риски, классификация и оценка финансовых активов, волатильность прибыли и убытков.*