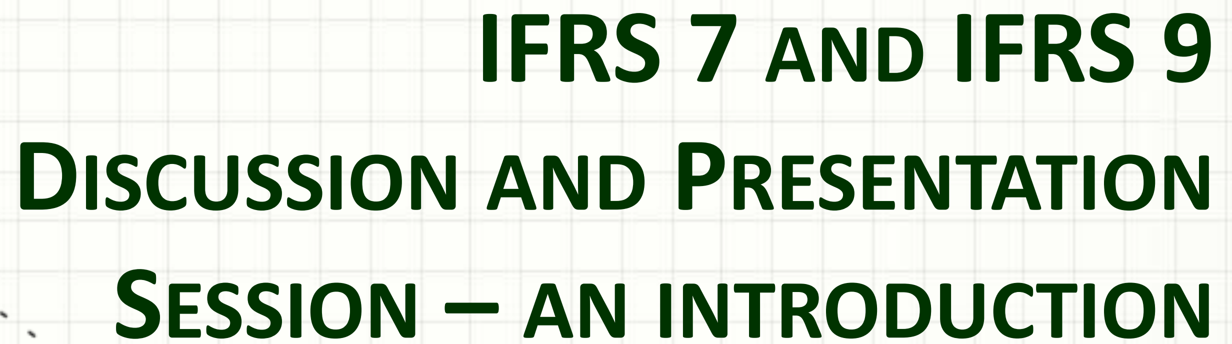

Abbas Radhi

IFRS 7 & 9 – Why are they important

- Both deal with financial instruments
- The intention is to simplify the disclosure of financial instruments.
- Through use of IFRS 7 & 9, end users of financial statements are meant to get a clearer view of the true position of companies with regards to financial instruments.
- These standards are intended to make financial statements more understandable and reduce the chance of end users being mislead.

IFRS 7 - Brief Overview

- Applicable to financial and non financial institutions
- Applies to investment funds, private equity funds, real estate funds and investment managers
- The extent of disclosure depends of the fund's use of financial instruments and exposure to risk

IFRS 7 - Brief Overview (Cont.)

- Divided into two distinct sections.
- The first covers quantitative disclosures about the income statement & balance sheet.
- The second covers risk disclosures that reflect the way that management perceives and deals with risk.
- IFRS 7 has been amended several times over the past few years.
- The last amendments deal with transfers of financial assets and offsetting financial assets & liabilities.

IFRS 9 – Brief Overview

- IFRS 9 is intended to replace IAS39.
- The standard has been released in phases and becomes mandatory on 1 January 2018.
- Early application is also permitted.
- Relief from restating prior years has been provided through transitional arrangements.

IFRS 9 – Brief Overview (Cont.)

- Aimed at simplification and clarity – reduces the classification and measurement models for financial assets that were used under IAS39.
- A single model is adopted covering three classification categories – amortized cost, fair value through OCI and fair value through profit and loss.
- Classification under IFRS 9 is driven by an entities business model for managing assets and whether the contractual characteristics represent solely payments of principal & interest.

IFRS 9 – Brief Overview (Cont.)

- Organizations are no longer required to separate embedded derivatives from financial hosts.
- A hybrid contract is classified at either amortized cost or fair values of contractual cash flows.
- All equity investments should be measured at fair value through profit and loss.
- Classification of financial liabilities under IFRS 9 remains the same as IAS 39 except where an entity has chosen to measure a financial liability at fair value through profit and loss.

Summary

- Both these standards create simpler disclosures for end users.
- Allow better comparatives to be made.
- I hope that you will enjoy the presentations and engage in a healthy debate about these standards.