Advisory Note: 2018/2 – IFRS 9 Financial Instruments

1.0 Introduction

The purpose of this Advisory Note is to give clarity on the application of International Financial Reporting Standard (IFRS) 9: Financial Instruments.

2.0 Background

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9-Financial Instruments to replace IAS 39-Financial Instruments: Recognition and Measurement. The standard is due for implementation for annual periods beginning on or after 1st January 2018, though early adoption is permitted. The 2014 version of IFRS 9 supersedes all previously issued versions.

IFRS 9 introduces a new impairment model for financial instruments based on the forward looking Expected Credit Loss (ECL) model. The new ECL model represents a fundamental shift from the incurred loss model and will have significant implications in terms of implementation as well as systems perspective. The new impairment model will have the most significant impact on financial institutions. However, non-financial Institutions are also bound to be affected. IFRS 9 brings about greater provisions and upfront recognition of credit losses. Its implementation will also require alterations to systems and processes, greater segmentation of portfolios and more integration of the credit risk management systems with the accounting systems.

3.0 Preparation for Implementation

Several industry players have been consulting over the implementation of the standard, including formation of the IFRS 9 Working Group to assess the impact of the standard. The Bank of

Zambia recently issued a circular providing guidance on how provisions under IFRS 9 will be treated for regulatory purposes. The Bank of Zambia Guidance Note 1 requires that the difference in the provision figure computed under IAS 39 as of 31 December 2017 and the opening balance computed under IFRS 9 be expensed by the financial service provider.

4.0 Guidance by ZICA

Notwithstanding the Bank of Zambia guidance issued for prudential purposes, preparers and auditors of financial statements are advised to follow the provisions of IFRS 9 in its entirety for accounting purposes. Any departure from these provisions will render the affected financial statements to be non-compliant with IFRS.

Members seeking clarification and implementation guidance may contact us at technical@zica.co.zm

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