Q2 2017 NEWSLETTER

The Bank Statement

IFRS – Global Banking Newsletter

"Global banks with reporting obligations under both IFRS and US GAAP face the challenge of implementing two expected credit loss frameworks."

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Credit loss accounting for dual reporters

Welcome to the Q2 2017 issue of our quarterly banking newsletter in which we provide updates on IFRS developments that directly impact banks and consider the potential accounting implications of regulatory requirements.

Spotlight on IFRS 9

Discussions on the modification or exchange of financial liabilities that do not result in derecognition under IFRS 9 *Financial Instruments* continued – see page 2.

Credit loss accounting – Challenges for dual reporters

We explore some issues to consider in deciding whether to centralise implementation efforts for the two expected credit loss frameworks for banks reporting under both IFRS and US GAAP – see page 7.

How do you compare? Presentation of interest

We look at how banks present interest on financial instruments at fair value through profit or loss (FVTPL) – see page 11.

Regulation in action – EBA final guidelines on credit risk and ECL

We discuss the European Banking Authority's (EBA) recently published guidelines on credit institutions' credit risk management practices and accounting for expected credit losses – see page 13.

In the light of the comments received for the tentative agenda decision on the modification or exchange of financial liabilities that do not result in derecognition, the Committee decided to refer the matter to the Board.

Modification or exchange of financial liabilities that do not result in derecognition

This topic was discussed by the IFRS Interpretations Committee in November 2016, March 2017 and June 2017 and by the IASB in February 2017. It relates to the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in its derecognition. More specifically, whether, when applying IFRS 9, an entity recognises an adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification.

At the June 2017 meeting, the Committee discussed the comments received for the tentative agenda decision published in March 2017. The Committee continued to agree with the technical analysis provided in the tentative agenda decision, which stated that an entity recalculates the amortised cost of a financial liability by discounting the modified contractual cash flows using the original effective interest rate and recognises any resulting adjustment in profit or loss at the date of the modification or exchange. However, in the light of the comments received for the tentative agenda decision, the Committee decided to refer the matter to the Board.

Financial assets eligible for the FVOCI election

In May 2017, the IFRS Interpretations Committee discussed whether financial instruments classified as equity by applying paragraphs 16A–16D of IAS 32 *Financial Instruments: Presentation* are eligible for the presentation election in paragraph 4.1.4 of IFRS 9.[1]

The Committee made the following observations:

- the presentation election in paragraph 4.1.4 of IFRS 9 refers to particular investments in equity instruments;
- Appendix A of IFRS 9 states that an equity instrument is defined in paragraph 11 of IAS 32 as 'any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities';
- a financial instrument that meets the definition of a financial liability cannot meet the definition of an equity instrument;
- paragraph 11 of IAS 32 states that, as an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument by the issuer if it has all of the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32; and
- a financial instrument that has all of the features and meets the conditions in paragraphs 16A–16D of IAS 32 is not eligible for the presentation election in paragraph 4.1.4 of IFRS 9 because it does not meet the definition of an equity instrument in IAS 32.

The Committee tentatively concluded that IFRS 9 provides adequate guidance in this area and tentatively decided not to add this matter to its standard-setting agenda.

1. Paragraph 4.1.4 of IFRS 9 permits entities to make an irrevocable election on initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income (FVOCI).

Fees included in the '10 percent' derecognition test

At its April 2017 meeting, the IASB considered the IFRS Interpretations Committee's recommendation to propose an amendment to IFRS 9 to clarify the requirements in paragraph B3.3.6 of IFRS 9 that when carrying out the '10 percent' test[2] for assessing whether to derecognise a financial liability, an entity includes only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The Board decided:

– to propose the amendment to IFRS 9 as part of the next annual improvements cycle; and

– to propose that an entity would apply the amendment only to modifications or exchanges of financial liabilities that occur on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The Board will consider the comment period and due process steps at a future meeting.

Symmetric prepayment options – Limited amendment to IFRS 9

In June 2017, the IASB discussed the feedback received on the exposure draft (ED) *Prepayment Features with Negative Compensation*. The IASB was not asked to make any decisions.

For more information, see our *IFRS Newsletter: Financial Instruments*, June 2017.

Amendment to IAS 28 — Application of IFRS 9 to long-term interests

In May and June 2017, the IASB continued its discussions of the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* included in the exposure draft *Annual Improvements to IFRS Standards 2015–2017 Cycle*. The proposed amendments relate to long-term investments in an associate or joint venture that in substance form part of the net investments in an associate or joint venture but to which the entity does not apply the equity method.

In May 2017, the IASB considered comments received on the exposure draft and decided that:

– an entity applies the requirements in IFRS 9 to long-term interests before applying the loss allocation and impairment requirements in IAS 28;

– an entity does not take into account any adjustments to the carrying amount of long-term interests that result from the application of IAS 28, when applying IFRS 9;

2. The '10 percent' test refers to the requirements in paragraph B3.3.6 of IFRS 9 on the assessment of whether the modified terms of a financial liability are substantially different from the original terms. Terms are considered to be substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate of the financial liability differs by at least 10 percent from the present value of the remaining cash flows under the original terms.

- the proposed amendments would have an effective date of 1 January 2019 and require retrospective application; and
- the transition requirements would be similar to those in IFRS 9 regarding the classification and measurement of financial assets for entities that apply the amendment after they first apply IFRS 9.

In June 2017, the IASB tentatively decided not to provide first-time adopters with any transition requirements other than those already included in IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Board expects to issue the amendments to IAS 28 in September 2017.

Webcast on impairment and the expected life of revolving facilities

In May 2017, the IASB released a webcast on the application of the IFRS 9 impairment requirements to revolving facilities. The webcast discussed key requirements of IFRS 9 that are relevant when an entity determines the expected life of revolving facilities, such as credit cards and overdrafts, by considering its normal credit risk management actions.

The webcast can be viewed on the IASB's website.

Loan loss accounting and financial stability

In April 2017, the IASB released a video on loan loss accounting requirements and financial stability that discusses:

- how IFRS 9 addresses the criticisms directed at IAS 39 *Financial Instruments: Recognition and Measurement*;
- how IFRS 9 will contribute to financial stability; and
- the relationship between IFRS 9 and regulatory capital requirements for banks.

The video can be viewed on the IASB's website.

IASB activities affecting your bank

For centrally cleared client derivatives, the Committee noted that the clearing member first applies the requirements for financial instruments in IFRS 9 or IAS 39.

IAS 32 – Centrally cleared client derivatives

In June 2017, the IFRS Interpretations Committee finalised its tentative decision reached in March 2017 not to add this issue to its standard-setting agenda.

The issue related to how a clearing member[3] accounts for centrally cleared client derivative contracts. The Committee noted that the clearing member first applies the requirements for financial instruments in IFRS 9 or IAS 39. The Committee observed that:

- IFRS 9 and IAS 39 require an entity to recognise a financial instrument in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. The clearing member presents recognised financial assets and financial liabilities separately, unless net presentation in the statement of financial position is required under the offsetting requirements in IAS 32; and
- if the transaction(s) is not in the scope of IFRS 9 or IAS 39 and another standard does not specifically apply, only then would the clearing member apply the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine an appropriate accounting policy for the transaction(s).

Post-implementation review of IFRS 13

In May 2017, the Board issued a request for information (RFI) to stakeholders as part of the post-implementation review (PIR) of IFRS 13 *Fair Value Measurement*. Its objective is to assess whether IFRS 13 is being applied as intended and whether its objectives are met. The PIR consists of two phases. In the first phase, the Board identified topics for analysis in the second phase. The second phase started with the RFI published in May, and focuses on:

- fair value measurement disclosures;
- information about measuring quoted investments in subsidiaries, joint ventures and associates at fair value;
- the application of the concept of the 'highest and best use' when measuring the fair value of non-financial assets; and
- the application of judgement.

The RFI also considers whether additional guidance on measuring the fair value of unquoted equity investments is required. The deadline for submitting responses is 22 September 2017. The RFI can be found on the IASB's website.

Dynamic risk management

The Board continued its discussions on its dynamic risk management (DRM) project at the May and June 2017 meetings. At these meetings, the staff presented education sessions to the Board. The Board was not asked to make any decisions.

For more information, see our *IFRS Newsletter: Financial Instruments*, May and June 2017.

3. Some jurisdictions require the clearing of certain derivatives through a central clearing counterparty (CCP). An entity has to be a clearing member to clear transactions through a CCP.

IFRS 17 *Insurance Contracts* issued

In May 2017, the Board issued IFRS 17 *Insurance Contracts*. IFRS 17 replaces IFRS 4 *Insurance Contracts*, which was issued as an interim standard in 2004. IFRS 17 will give users of financial statements a whole new perspective. Increased transparency about the profitability of new and in-force business will give them more insight into an insurer's financial health than ever before.

IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Board will support the implementation of the standard by establishing a transition resource group.

For more information, see our web article.

Credit loss accounting: Challenges for dual reporters

"For banks that have already developed credit loss models and the related governance to satisfy the requirements under IFRS 9, the primary question is to what extent these model(s) and governance can be leveraged to satisfy their CECL requirements."

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Global banks with reporting obligations under both IFRS and US GAAP face the challenge of implementing two accounting standards for expected credit losses. The IFRS expected credit loss framework is included in IFRS 9, issued by the IASB in July 2014; the US GAAP framework is included in Accounting Standards Update (ASU) 2016-13 *Financial Instruments – Credit Losses (Topic 326)* issued by the US Financial Accounting Standards Board (FASB) in June 2016.

This article outlines some considerations for dual reporters in tackling this challenge.

Two frameworks for accounting for expected credit losses

The new credit loss frameworks are conceptually similar in that they are both 'expected' and forward-looking, as opposed to the 'incurred' loss frameworks applicable under both IFRS and US GAAP today. However, there are significant differences that dual reporters need to consider carefully when designing their accounting and governance solutions (some of them were discussed in the Q3 2016 edition of *The Bank Statement*). Both sets of requirements shift the paradigm of the calculation of credit loss.

In addition, dual reporters have to accommodate two different effective dates. The expected credit loss framework in IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The expected credit loss framework in ASU 2016-13 (CECL) is effective from 1 January 2020 for calendar year public entities that file with the Securities and Exchange Commission (SEC). Early application of CECL is permitted one year earlier.

Although it may be possible for dual reporters to use the same implementation infrastructure (i.e. the same loss modelling framework, implementation processes and controls etc.) to meet both sets of requirements, enhancements to the implementation framework already planned or developed will be needed to ensure that the requirements of both standards are met.

The burning question – Should dual reporters centralise implementation efforts?

Global banks with US GAAP reporting obligations may wonder whether a fully centralised adoption approach for both credit loss frameworks offers the best solution. Under this approach, implementation of both frameworks would be driven by one centralised work stream in which the credit loss models and governance already developed for IFRS 9 are leveraged for CECL. In contrast, under a de-centralised approach implementation would be driven by two separate work streams by potentially two or more distinct entities within the bank's reporting structure. A de-centralised approach is also likely to entail developing two stand-alone solutions: one for each of the credit loss frameworks under IFRS 9 and CECL.

This issue of whether to centralise adoption efforts is relevant both for global bank parents that report under US GAAP with international subsidiaries reporting under IFRS, and for global bank parents that report under IFRS with US subsidiaries reporting under US GAAP. Both groups are well advanced in their IFRS 9 implementation efforts but most have a full two years after the January 2018 effective date of IFRS 9 to adopt CECL.

At first glance, a centralised solution for implementing both frameworks seems to be the most efficient approach. After all, for many banks, preparing to implement both standards is likely to consume a lot of effort from those preparing and approving their financial statements and those in credit risk management and a centralised approach may appear to minimise those efforts. Implementation and ongoing compliance with IFRS 9 and CECL are likely to be time-consuming, cost-intensive and complex, because meeting the requirements of the new accounting standards is likely to require an overhaul of many aspects of accounting systems and processes. For these reasons, many institutions may want to satisfy the requirements of both impairment frameworks with one unified solution in which the implementation of both expected credit loss frameworks follows one centralised work stream.

But would it be prudent to shortcut the exercise with a unified 'all-in-one' solution or would this backfire in the long run? Can a fully centralised solution efficiently address the differences in requirements of the two accounting standards?

Centralisation – Addressing different accounting requirements and other risks

One of the key considerations for a fully centralised approach is ensuring that all relevant differences between the two frameworks are considered and a process put in place to reflect the measurement and disclosure differences on an ongoing basis. For banks that have already developed credit loss models and the related governance to satisfy the requirements under IFRS 9, the primary question is to what extent these model(s) and governance can be leveraged to satisfy their CECL requirements.

One issue is that the IFRS 9 impairment framework, on the whole, is more prescriptive than CECL. For example, IFRS 9 requires the use of multiple probability-weighted economic scenarios and discounting, whereas CECL does not. As a result, leveraging credit loss models developed for IFRS 9 to meet CECL requirements may reduce the potential implementation options and introduce unnecessary complexity to CECL.

Other differences in accounting requirements may be more complex. For example, CECL applies a single measurement objective – lifetime expected credit losses – while the general framework in IFRS has dual measurement objectives: either 12-month or lifetime expected credit losses. But, even after taking account of multiple economic scenarios and the discounting required under IFRS 9, will it be possible for a global bank to leverage the IFRS 9 lifetime expected credit losses methodology to develop loss projections for all loans under CECL? What if loans with similar credit risk characteristics are not sufficiently aggregated within the IFRS 9 credit loss model? Aggregation is always required for CECL, when similar risk characteristics exist, but not for IFRS 9.

Banks will also need to wrestle with the differences on estimating expected credit losses on unfunded loan commitments. IFRS 9 includes specific requirements for certain loan commitments that can be cancelled at short notice, such as a typical credit card, to measure expected credit losses over a longer period than the contractual exposure period. In contrast, under CECL credit losses are not estimated on unfunded commitments if they are unconditionally cancellable by the issuer. Some of the practical issues under IFRS 9 relate to estimating the period of exposure of the unfunded component. Practical issues under CECL include estimating the period of exposure for the funded component, including the allocation methodology for any payments received from the customer between the funded component and any future draw-downs on the unfunded component.

There are many other differences in accounting and reporting requirements, whose importance is likely to depend on the type of business carried out throughout the banking group and the financial instruments held by different entities. IFRS 9's disclosure requirements are different from CECL's. Moreover, with more than two years before most institutions will adopt CECL, there is potential for additional SEC disclosure guidance to be issued that may alter an institution's data needs and its ability to leverage what it has already developed for IFRS 9.

Banks also need to consider the risk that a centrally developed credit loss model will not be sensitive to the compliance and reporting requirements for both IFRS 9 and CECL for asset classes specific to different countries. Will a centrally developed credit loss model for IFRS 9 be sensitive to US-specific economic sensitivities and loss behaviour? Will the granularity at which assumptions and modelling approaches are determined for a central model be appropriate for application to potentially different asset classes in the US and at a different level of materiality?

De-centralisation also presents risks

Some banks may fear that developing a centralised solution for CECL by leveraging models developed for IFRS 9 through a unified work stream would actually prove more costly and less efficient than if they were to follow a de-centralised solution. But is de-centralisation really the best approach?

In a de-centralised solution, implementation efforts would be driven by two distinct work streams, which may entail developing a stand-alone CECL solution for the US without leveraging models and governance already in development for IFRS 9. This method also presents risks.

The main risk is the sheer burden. A de-centralised approach could over-complicate the project, possibly causing duplicate work and substantially driving up costs. Some dual reporters are considering almost 2,000 different enterprise-wide macroeconomic variables in their credit loss models, with overlays and adjustments based on local, regional or country variables – an immense undertaking for the accounting, finance and risk teams that will probably require a costly overhaul of technology systems and data processes.

De-centralisation also presents a resource question. Will US subsidiaries of a global bank have the expertise, resources and financial capabilities to manage CECL compliance processes independently from the head office?

Which is the right approach?

Many arguments can be made for a hybrid approach. For the many synergies and common components of IFRS 9 and CECL solutions, a centralised approach for the majority of implementation activities is likely to create significant efficiency. But at the same time, centralising some adoption efforts – e.g. the difference in accounting treatment for credit losses on unfunded commitments – may not be appropriate. Therefore, we think that a hybrid approach is preferable: synergies between the credit loss frameworks would be captured where requirements align, and the risk of potential traps arising from significant differences in accounting requirements would be reduced through de-centralised work streams for specific matters.

Depending on the location of resources and expertise, global banks may choose to centralise certain implementation efforts for CECL and IFRS 9, while de-centralising other efforts to address significant differences in accounting, modelling requirements and disclosure obligations. These banks may also determine that processes and controls for these differences in accounting, modelling requirements and disclosure obligations should be de-centralised as well.

Post-adoption governance

Banks may find a hybrid approach more appropriate for ongoing, post-adoption governance, too. Certain ongoing efforts, such as IT controls relating to systems used in centralised models, may be appropriately centralised, too. However, other tasks, such as the design of financial reporting processes and controls to satisfy ongoing post-adoption reporting efforts, may be best left to the US GAAP-reporting subsidiary or parent to consider as a separate work stream from the centralised implementation efforts. We think that the decision over which ongoing processes to centralise should be based largely on the centralisation vs de-centralisation of the group's implementation efforts. Clearly, the degree to which the post-adoption governance framework is centralised can always be modified as circumstances dictate.

Final thoughts

A hybrid approach would allow global banks to realise efficiencies from a centralised implementation approach while also addressing significant differences in the two credit loss frameworks. Implemented carefully, it may also give dual reporters a better opportunity to satisfy the concerns of local regulators, while also providing a degree of autonomy to local teams for the design of a control framework based on each team's specific financial reporting obligations.

How do you compare? Presentation of interest

The majority of banks presented interest on financial assets and financial liabilities at FVTPL in the interest line in profit or loss.

In anticipation of the effective date of IFRS 9 of 1 January 2018 and the new presentation requirements introduced by the standard, we look at how banks currently present interest on financial instruments at FVTPL in profit or loss.

Our sample consisted of 10 large international banks' December 2016 annual financial statements.

What are the new requirements?

IFRS 9 amends paragraph 82 of IAS 1 by introducing a new requirement that interest revenue calculated using the effective interest rate (EIR) method is presented as a separate line in profit or loss (paragraph 82(a) of IAS 1). Banks will have to consider to what extent their current presentation of interest on financial instruments measured at FVTPL complies with this new requirement.

Under IFRS 9, financial assets may be measured at FVTPL because they fail the 'solely payments of principal and interest' (SPPI) criterion or because of the business model in which they are held, or both, or because they are designated as at FVTPL. Accordingly, this measurement basis may apply to a wider spectrum of financial assets than under IAS 39, where it is limited to instruments classified as trading or designated as at FVTPL.

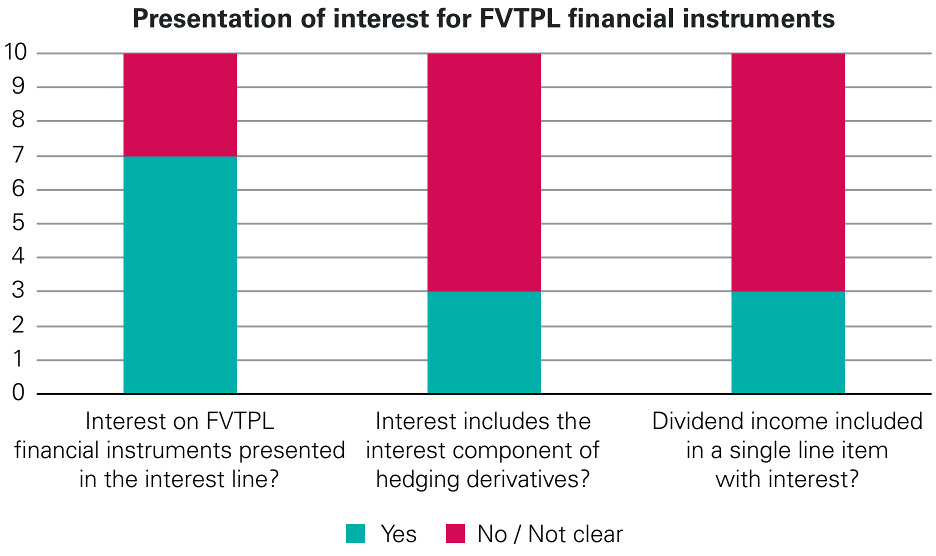
How did banks present interest in profit or loss?

The majority of banks presented interest on financial assets and financial liabilities at FVTPL in the interest line in profit or loss. This appears to include both financial instruments classified as trading and designated as at FVTPL. Nine banks disclosed in accounting policies that interest is calculated using EIR. One stated that EIR calculation is applied only to available-for-sale financial assets and financial instruments measured at amortised cost, but for financial instruments at FVTPL interest is measured on contractual basis.

Three banks disclosed that interest on derivatives used for hedging activities is included in the interest line, with one bank specifically stating that such interest includes the effect of hedge accounting.

Three banks included dividend income in the interest line. In one case, dividends related to preference shares classified as debt that formed part of the group's lending activities. In another case, dividends related to equity instruments. The third bank did not provide further analysis.

The graph below provides a summary of our findings.



Regulation in action – EBA final guidelines on credit risk and ECL

"As with the consultation paper, the final guidelines remain consistent with the Basel Committee's *Guidance on credit risk and accounting for expected credit losses,* which was finalised in December 2015."

– **Steven Hall**
KPMG in the UK

The EBA has recently published its final Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (ECL), including guidelines specific to institutions applying IFRS 9.

The EBA had released a consultation paper on the guidelines in July 2016 and the final guidelines remain substantially unchanged from the original consultation paper. The Q3 2016 edition of *The Bank Statement* discussed some of the proposals.

The final guidelines are effective from 1 January 2018 and so are aligned with the implementation date of IFRS 9, and competent authorities and financial institutions "must make every effort to comply". Their scope extends to loans, loan commitments and financial guarantee contracts to which an ECL framework applies – debt securities are outside the scope of the guidelines.

As with the consultation paper, the final guidelines remain consistent with the Basel Committee on Banking Supervision's *Guidance on credit risk and accounting for expected credit losses*, which was finalised in December 2015.

Although the Basel Committee's guidance was focused on internationally active banks, in line with its general pronouncements, the final EBA guidelines apply to approximately 6,000 credit institutions in the EU. As a result, one of the key challenges relates to the way that they could be applied in a proportionate manner to a range of institutions.

The final guidelines introduce a slight softening of the language around proportionality and the use of practical expedients relative to the consultation paper. This provides greater flexibility for adopting a proportionate approach across a range of firms both large and small and the following specific text from the consultation paper does not appear in the final version: "credit institutions which are both smaller and less complex may reasonably rely more on the use of practical expedients while meeting the objectives of these guidelines". This could have been seen to limit the use of practical expedients by larger banks even when they represented a proportionate approach to the implementation of IFRS 9. The use of practical expedients still needs to be justified and documented.

At this stage, as firms approach the finishing line of IFRS 9 implementation, institutions will need to validate their application of the concepts of proportionality and materiality and determine whether any changes to their implementation plans should be made.

Where regulation and reporting meet...

The guidance is intended to complement the existing accounting and regulatory framework in relation to asset categorisation and is designed to be used for regulatory and internal credit risk management purposes.

Prudential treatment of problem assets – Definitions of non-performing exposures and forbearance

In April 2017, the Basel Committee issued the final guidance on the *Prudential treatment of problem assets – definitions of non-performing exposures and forbearance*.

The Basel Committee notes that its review: "confirmed that there are varied practices for categorising problem loans, with no consistent international standards for doing so. The Basel Committee identified multiple layers of credit risk categorisation: (i) definitions used for banks' internal credit risk categorisation; (ii) definitions used for regulatory and supervisory credit risk categorisation; and (iii) definitions used in the accounting frameworks for financial statements. Within these layers, similar loans fall into different categories in various jurisdictions, although some commonalities are noted."[4]

The Basel Committee explains that the guidance is intended to complement the existing accounting and regulatory framework in relation to asset categorisation and is designed to be used for regulatory and internal credit risk management purposes. As the subject of non-performing and forbearance is closely related to impairment requirements of accounting standards, the Basel Committee emphasises that it is not the intention for the guidance to "undermine standards that are focused on the accuracy of impairment and provisions disclosed in financial statements and reflect the risk of loss."[5]

The guidance states that identification of an exposure as non-performing or forborne is not intended to affect its categorisation as impaired for accounting purposes[6]. It also states that forborne exposure may or may not overlap with the concept of modified assets[7].

It cautions that it is important that supervisory and accounting frameworks do not allow forbearance to be used in avoiding categorising loans as non-performing.

Frequently asked questions on changes to lease accounting

In April 2017, the Basel Committee issued responses to frequently asked questions (FAQs) related to the forthcoming changes to lease accounting under IFRS 16 *Leases* and ASU 2016-02, *Leases (Topic 842)* issued by the FASB.

Both standards require a lessee to recognise on its balance sheet an obligation to make a lease payment (liability) and a corresponding right-of-use (ROU) asset. A question then arises over how banks should treat the ROU asset for capital purposes. The Basel Committee provided the following responses.

4. Paragraph 48 of the final guidance.
5. Paragraph 9 of the final guidance.
6. Paragraph 25 of the final guidance.
7. Paragraph 36 of the final guidance.

FAQ on the regulatory treatment of the ROU asset	
FAQ	**Answer**
Should the ROU asset be deducted from regulatory capital?	No, if the underlying asset being leased is a tangible asset.
Where the underlying asset being leased is a tangible asset, should the ROU asset be included in risk-based capital and leverage ratio denominators?	Yes.
Where the underlying asset being leased is a tangible asset, what risk weight should be assigned to the ROU asset for regulatory capital purposes?	The ROU asset should be risk-weighted at 100%, consistent with the risk weight applied historically to owned tangible assets and to a lessee's leased assets under leases accounted for as finance leases in accordance with existing accounting standards.

EBA issues 2018 EU-wide stress test methodology for discussion

In June 2017, the EBA published its 2018 European Union (EU)-wide stress test draft methodology and templates that for the first time will incorporate IFRS 9. For banks that will commence reporting under IFRS 9 in 2018, the 2018 EU-wide stress test takes into account the impact of the implementation of IFRS 9 on 1 January 2018, both in terms of starting point and projections.

The final methodology will be published as the exercise is launched, at the beginning of 2018, and the results are expected to be published in mid-2018.

You may also be interested to read...

Insights into IFRS: 13th Edition 2016/17

Helping you apply IFRS to real transactions and arrangements. Includes our interpretative guidance based on IFRS 9 (2014).

September 2016

IFRS Newsletter: Financial Instruments – Issues 39 and 40

Follows the IASB's deliberations on amendments to financial instruments accounting.

May and June 2017

First Impressions: *Amendments to IFRS 4*

Contains insight and analysis to help you assess the potential impact of the amendments on your business.

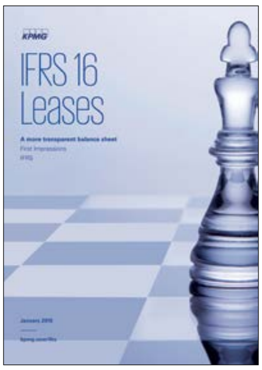
September 2016

IFRS Newsletter: IFRS 9 Impairment – Issue 4

Highlights the discussions of the IFRS Transition Group for Impairment of Financial Instruments on the impairment requirements of IFRS 9.

February 2017

First Impressions: IFRS 16 *Leases*



Explains the key requirements, highlights areas that may result in a change in practice, and features KPMG insights.

January 2016

IFRS Newsletter: Insurance – Issue 57

Summarises the IASB's recent discussions on the insurance contracts project.

March 2017

Click on the images above to access the publications.

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