

IFRS 9 – Are you ready?

What commodity traders have so far learned through IFRS 9 implementation



pwc

For the majority of commodity traders, the new financial instruments standard came into force on 1 January 2018. Many are finding that the impact of IFRS 9 conversion is greater than had been expected – or planned for. As organizations are now preparing for their 2018 first quarter or half-year results reporting, it is of particular importance to fully reflect the effects of IFRS 9 conversion already in organisations' earliest interim reporting, so as to avoid a potential restatement of balances and disclosure information in subsequent reporting.

Our experience shows that certain key elements frequently carry an elevated impact on commodity traders in preparing for their earliest interim reporting under the new standard, including:

Classification & measurement

- Own use contracts: IFRS 9 permits contracts within scope of the 'own use exemption' to be carried at fair value through P&L.
- Pre-financing agreements are potentially in scope of IFRS 9, and need to be assessed for classification and impairment.
- Factoring of trade receivables, seizure of collateral, or other factors which may impact the treatment of trade and lease receivables.
- Determining the classification and accounting treatment for money market funds, following transition to the more judgment based 'business model assessment,' and application of the 'SPPI test' (Solely Payment of Principal and Interest).
- Adjusting the accounting treatment for equity instruments previously considered AfS (Available for Sale) and voluntarily measured under IFRS 9 at Fair Value through Other Comprehensive Income (FVOCI).
- Updating the measurement approach for equity instruments previously measured at historical cost.
- Operational aspects, such as programming system solutions for the new accounting logic.

Impairment

- Adjusting provision matrices for allowance accounts to become 'forward looking,' affecting contract assets, as well as debt securities and trade and lease receivables. Most companies witness an increase in provision balances.
- Updating accounting policy for the definition of impairment for contract assets, as well as long term trade and lease receivables.
- For investments in debt securities, tracking changes in credit quality since initial recognition.

Hedging

- Consider the potential to designate hedge accounting relationships over non-financial components (e.g. in capacity, tolling, time charters, or gas storage contracts).
- Updating hedge designation documentation and corresponding hedge effectiveness calculation methodologies.
- Programming system solutions to account for the portion of derivative valuations which are excluded from hedging relationships (such as paid option premiums, forward points, or currency basis spread).

Transition / Disclosure

- Defining the transition approach.
- Calculation of transitional adjustments.
- Adjusting for the accounting impact of financial liabilities which have been, or which will be, restructured since initial recognition.
- Preparation of extensive additional disclosures required in the year of transition.

If your organization has not yet completed its transition to IFRS 9, our experts stand ready to assist with any remaining measures, such as impact analysis, training, revision of accounting policies, updating of hedge designation documentation and hedge effectiveness testing, configuration of trading, treasury management or accounting systems, or drafting of the required transition disclosures.

Your contacts

Michiel Mannaerts

Partner, Trading Solutions –
Switzerland
+41 79 638 51 64
michiel.mannaerts@ch.pwc.com

James Nelson

Manager, Treasury Solutions –
Basel/Zurich
+41 79 627 16 34
james.d.nelson@ch.pwc.com

Sebastian di Paola

Partner, Trading Solutions –
Switzerland
+41 79 596 72 11
sebastian.di.paola@ch.pwc.com

Graeme Kirkpatrick

Senior Manager, Trading
Solutions – Romandie
+41 79 834 77 47
graeme.kirkpatrick@ch.pwc.com

Pekka Korpi

Manager, Treasury Solutions –
Romandie
+41 79 238 60 47
pekka.korpi@ch.pwc.com

