Title: Banks look towards IFRS 9 practical implementation
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Banks look towards IFRS 9 practical implementation

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The transition to IFRS 9 will be challenging, but with careful preparations, the changes that this reporting standard brings might turn into opportunities for banks, experts from PwC and SAS said at a workshop held in Hanoi yesterday.

The IFRS 9 seminar held by PwC Vietnam and the SAS Institute

The full-day workshop themed "IFRS 9: Practical implementation in Vietnam" was organised by the Vietnam Banks' Association (VNBA) in partnership with PwC Vietnam and the SAS Institute. Over 120 leaders and representatives from the Risk Management, Accounting, and Finance teams of local commercial banks were in attendance, as PwC and SAS experts presented IFRS 9 complexities and offered practical solutions to navigate the changes that come with this international financial reporting standard.

According to the draft IFRS roadmap released by the Ministry of Finance in March 2019, IFRS implementation will become compulsory for the consolidated financial statements of all state-owned enterprises, listed companies, and large-scale unlisted public companies after 2025. The 2025 milestone, though six years away, will likely be a challenge for local banks unless they start preparations right now, experts at the event said.

"When it comes to IFRS 9 – Financial Instruments, financial institutions are likely to require a significant amount of time and effort to assess the impacts (both financial and operational impacts), gain the necessary capabilities to comply with the requirements of the standard,

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prepare proposals for endorsement of changes by necessary stakeholders, and carry out implementation projects. This is something we have learned from advising on IFRS 9 implementation in other countries," Tran Hong Kien, assurance partner and IFRS leader at PwC Vietnam, said.

"This is because banks are likely to see bigger and broader impacts from IFRS 9 on its profits, risk management processes, and IT systems," Kien added.

IFRS 9 brings changes to how an entity should classify and measure financial assets, and includes new hedge accounting guidelines. Moreover, the new impairment model requires banks to make provisions in anticipation of future potential losses ("expected credit loss" – ECL), instead of only when losses are incurred. This change is expected to have the most significant impact on financial institutions.

"IFRS 9 will alter the way banks book provisions for its financial assets. Banks should expect volatility in its provisions and for first-day adoption of IFRS 9, provision levels are likely to be higher. The degree of the impact will vary from bank to bank and it depends on the respective bank's portfolio mix, borrower risk profiles, robustness of its ECL models, and so on," Stefanie Tang, financial services director at PwC Malaysia, commented.

"In view of the complexity of IFRS 9, most banks around the region, including in Malaysia, had planned and commenced the implementation project at least one year prior to the effective date of IFRS 9 on January 1, 2018. Now the focus has shifted from the quantitative aspects to qualitative aspects, including model refinements, model governance process, and model monitoring, among others. Therefore, to ensure a smooth transition to IFRS 9 implementation, banks in Vietnam should plan early and also consider parallel runs to avoid surprises prior to the go-live date," Tang added.

Overall, IFRS 9 will require robust data, systems, and processes, and greater collaboration within every organisation. Financial institutions are advised to explore the uses of advanced data analytics and automation to deal with the complexity of this standard.

"IFRS 9 is by far one of the most complex implementations financial institutions have undertaken in the last decade. IFRS 9 implementation involves changes to existing credit risk models, increased governance and control over the accounting process as well as the increased focus on co-ordination between risk and finance functions. The value of IFRS 9, however, goes beyond the cost of implementing the framework, as it improves transparency and increases the resiliency of financial institutions," said Sheldon Goh, head of risk practice and solutions at the SAS Institute for the ASEAN.

Nguyen Thanh Son, director of the VNBA Training Centre, said that IFRS 9 implementation will be essential for Vietnamese banks wanting to strengthen investor confidence and compete in the international playing field. In fact, more and more banks in Vietnam have put IFRS 9 on their transformation agenda. For banks that have yet to do that, now is the time to start – while they still can deal with its impacts on financial statements, systems, processes, controls, and so on in a measured and thoughtful way.

By Dinh Thuy