Integrated Economy and Society: Diversity, Creativity, and Technology
16–18 May 2018
Naples • Italy
Management, Knowledge and Learning International Conference 2018
Technology, Innovation and Industrial Management

ANALYSIS OF THE REPLACEMENT OF INTERNATIONAL FINANCIAL REPORTING STANDARD FOR FINANCIAL INSTRUMENTS: IAS 39 VERSUS IFRS 9

Mojca, Gornjak
International School for Social and Business Studies, Slovenia
mojca.gornjak@mfdps.si

Abstract:
From the 1st of January 2018 all the organizations that use International financial reporting standards, had to implement an accounting in accordance with IFRS 9 – Financial instruments. IFRS 9 introduces new classification and measurement of financial instruments and a new model of impairment, which is based on the expected credit losses. The financial instruments are classified into two categories of measurement which are amortized cost or fair value according IFRS 9. Classification depends on selected business model and cash flows of the financial instrument. For all the financial instruments which are measured at amortized cost or at fair value through other comprehensive income, the organization recognizes additional provisions for possible credit losses in the future. IFRS 9 introduces the new forward-looking approach in accounting, the new accounting changes the processes, has an impact on decision-making and has an effect on the financial statements.

Keywords: International financial reporting standards, IAS 39, IFRS 9, impairment, expected credit loss

1 INTRODUCTION

Organizations that have in the statement of financial position (balance sheet) financial instruments (receivables, liabilities, financial assets, financial leases, derivatives) had to replace accounting under IAS 39 with accounting according to IFRS 9 from 1st of January 2018. Replacement of the standard has a significant impact on the accounting rules and accounting processes within the organization that altered due to the replacement, on decision making of the management and also on the financial statements. The expected credit losses, calculated in accordance with IFRS 9, namely require provisioning of expected credit losses that is lowering the values of financial instruments through profit or loss.

The IASB (International Accounting Standards Board) published the final version of International financial reporting standard 9 (IFRS 9) – Financial instruments in July 2014, which replaced the international accounting standard IAS 39 – Financial instruments from 1st of January 2018. All organizations, as we mentioned before, has to replace accounting under IAS 39 with IFRS 9 except insurance companies, which can delay the introduction of IFRS 9 until the 1st of January 2021.

In the paper we present a literature review, methodology used, and comparison between IAS 39 and IFRS 9 in the area of the advantages and disadvantages of replacing, SWOT analysis, classification and measurement of financial instruments in accordance with IFRS 9, the basis for the calculation of the expected credit losses and related impairment for the financial instruments.

2 A LITERATURE REVIEW

Replacement of the standard for financial instruments IAS 39 with IFRS 9 is a result of the financial crisis that began in 2008. Huain (2012, p. 28) sums up that the valuation of financial instruments in accordance with IAS 39 is one of the causes of the financial crisis in 2008. The G20, the Ecofin Council, the Committee on financial stability suggested an improvement to IAS 39 after 2008 with the focus on:

- the complexity of the IAS 39 for financial instruments,
- the extent to which the financial instrument is subject to fair value, and
- the procedure of recognition and measurement of financial instruments.

IFRS 9 was first presented at the end of 2009 and contained requirements for the recognition and measurement of financial assets (IASB, 2009). IFRS 9 enhances the ability of investors and other stakeholders for the presentation of financial information and increasing understanding of financial assets (Beerbaum & Piechocki, 2017; Bischof & Daske, 2016, p. 9; Carmen, 2013; Ghasmi, 2016; Hronsky, 2010; KPMG, 2014; Marshall, 2015; Moody's, 2016; Novotny-Farkas, 2015; Petchchedchooa & Duangployb, 2017). Simplifications are relating to the initial measurement of financial instruments, which should be or at amortized cost or at fair value and a unified model of impairment of the financial instruments, which uses a model of expected credit losses (Hronsky, 2010; Huian, 2012; Kristof & Virag, 2017; Miu & Ozdemir, 2016; Xu, 2016; Yang, 2017). Because of the changes in accounting in accordance with IFRS 9 we can expect further changes in processes and decision making in organizations (Brkovic, 2017; Gornjak, 2017).

3 THE METHODOLOGY

The paper bases on qualitative research, acknowledged by many authors in the field of management accounting (Ahrens & Chapman, 2006; Burns, 2014; Kaplan, 1984; Mat, Smith, & Djajadikerta, 2010; Modell, 2005; Schiller, 2010; Siti-Nabiha & Scapens, 2005; Vaivio, 2008), some of them even highlight case studies (Burns, 2014; Burns & Scapens, 2000; Humphrey & Scapens, 1996; Kaplan, 1984; Liguori & Steccolini, 2012; Siti-Nabiha & Scapens, 2005; Steen, 2011). Comparative analysis of the replacement of the standard for financial instruments is important both to the academic as a practical audience, because the organisations, that use international financial reporting standards in the world (around 140 countries), has to replace the accounting of financial instruments in accordance with IFRS 9. Insurance companies can postpone the replacement to 1st of January 2021 when the IFRS 17 – Insurance contract will be introduced and will replace the existing IFRS 4 – Insurance contracts. The deferral of replacement is due to possible accounting mismatches between assets (IFRS 9) and liabilities (IFRS 17).

The contribution of the wider research findings summarises the replacement of the standard, which defines the financial instruments. The possibility of further research is in the area of comparisons of the valuation of a range of financial instruments after 1st of January 2018 and on the significant impact on the financial statements, changes in the processes in the organization, organizational structure, and decision making.

4 COMPARISON OF IAS 39 WITH IFRS 9

4.1 The advantages and disadvantages of replacing the standard of financial instruments

An important change in the accounting for financial instruments refers to the shift from certain rules in IAS 39 (rules-based) to certain principles in IFRS 9 (principle-based). Critics of the rules underlying the current IAS 39 argue that rules do not adapt and are useless in a changing environment or in an environment of innovative transactions (Benston, Bromwich, & Wagenhofer, 2006, p. 169). On the other hand, the standard, based on the principles, has the lack of operational guidance (Benston et al., 2006, p. 169), as the organization formulates principles itself. With the introduction of IFRS 9, based on the principles the comparison between organizations is no longer possible because the standard requires the determination of the assumptions and judgments that confirm and verify the regulators and auditors (Benston et al., 2006) and are different among the organizations. The organization should determine a variety of assumptions and assessments based on business models and, therefore, a comparison of the valuation of financial instruments is no longer possible. Scapens (1994, p. 310) notes that despite the fact that the rules allow decision makers more stable and predictable decisions that are taken in an unstable environment, the new standards are not following that and are introducing forward-looking approach.

The IASB's Chairman, in a speech that had in January 2016 before the European Parliament, pointed out that the biggest change was in governing the accounting of financial instruments and the introduction of the model of the expected credit losses, which requires timely recognition of the inevitable losses in the financial statements of banks in particular (Hoogervorst, 2016).

The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing, and uncertainty of an organization's future cash flows (IASB, 2016, p. 5).

IFRS 9 requires a shift in mind of accountants and management for classification of financial instruments, a new framework for impairment because of forward-looking approach and new disclosures (Ha, 2017, p. 2). Furthermore, IFRS 9 contributes to improved financial reporting for debt instruments, while impairment of the financial instruments bring the different, but significant changes in accounting policies, which are based on the model of the future credit losses, while stakeholders have insight into financial instruments, which has important increase in credit risk (Marshall, 2015). The improved financial reporting the organizations should connect to disclosures and have to disclose the changes in measurement and staging of financial instruments.

IFRS 9 also requires recalculating expected credit loss on each reporting date (which could be on monthly, quarterly, semi-annually or annually basis), which update all the data provided for calculation and provisioning of expected credit loss. The calculation of expected credit loss on each reporting date eliminates the threshold for the recognition of ECL so that it is no longer necessary to occur a “trigger event” before credit losses are reported (Cohen & Edwards, 2017, p. 42).

As the advantage, we can expose the reclassification of financial instrument, which is classified in according to the business model. IFRS 9 allows the reclassification of financial instruments if the business model changes.

The disadvantage of implementing the new standard are the costs of the replacement (more complex IT systems, more data, complex calculations at each reporting date), but Marshall (2015, p. 1) pointed out that the benefits outweigh the costs of implementation. A further disadvantage is the lack of convergence with us GAAP standards, but the promoters of IFRS) considered the U.S. requirements for recognition, classification, measurement and concluded that European organizations won't be in a position of competitive disadvantage, particularly in the impairment (Marshall, 2015, p. 2).

IFRS 9 inserts in the accounting novelty such as a business model. Organizations should manage the financial instruments in at least three main business models, in order to generate the cash flows by collecting contractual cash flows (principal and interests), by selling of financial instruments, or both (European Commission, 2016, p. L 323/53; Marshall, 2015, p. 13). The business model for financial instruments can be defined as the fact, which is determined by the business and performance of the organization. The nature of the business model is determined as (European Commission, 2016, p. L 323/53; Marshall, 2015, p. 13):

- the way of presenting the performance of the business model and management of financial assets and its presentation to key management,
- risks affecting the performance of the business model and management, and
- the method of calculation of compensation for executives.

A comparison between IAS 39 and IFRS 9 on the field of the purpose, initial recognition, and the initial measurement shows, that there is no change between IAS 39 and IFRS 9. In all other categories, such as subsequent measurement, classification, reclassification, measurement of equity instruments and impairment there are changes.

Table 1: Differences between IAS 39 and IFRS 9

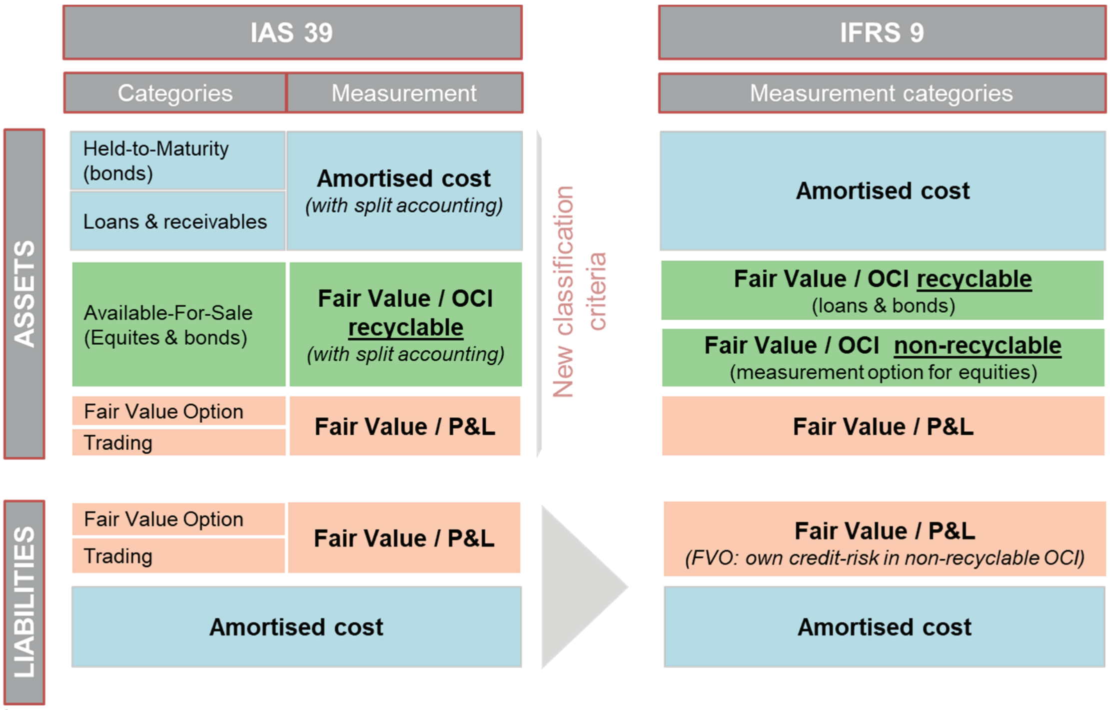
Category	**IAS 39**	**IFRS 9**
Subsequent measurement	The fair value. The amortized cost value. Costs (for the share-based instruments, which do not have a reliable fair value measurement).	The amortized cost (AC). Fair value through other comprehensive income (FVOCI). Fair value through profit or loss (FVTPL).
Types of classification	Fair value through profit or loss (FVTPL). Held-to-maturity (HTM). Loans and receivables (LAR). Available for sale (ASF).	The amortized cost (AC). Fair value through other comprehensive income (FVOCI). Fair value through profit or loss (FVTPL).
Reclassification	Reclassification shall be prohibited through profit or loss after initial recognition.	Change of business model.
Equity instruments	All equity instruments available for sale, are classified at fair value through other comprehensive income.	The fair value of the instrument for the purpose of trade. The irrevocable choice for the category through other comprehensive income.
Impairment	Several models of impairment. Model incurred losses.	A unified model of impairment, which applies to all financial instruments. The model of expected credit loss.

Adapted from: Huian, 2012, p. 35.

From table 1 we can conclude that the biggest changes in the accounting for financial instruments are in classifying and subsequent measurement, which is in the line of impairment from multiple models to the simplified and unified model of impairment with the calculation of the expected credit losses and we can present this as an advantage.

A comparison between the two standards we may also demonstrate graphically, where is even more apparent the simplification in accordance with IFRS 9.

Picture 1: Comparison between IAS 39 and IFRS 9



Source: Frèrejacque, 2014, p. 17.

As shown in picture 1, IAS 39 uses categories for financial instruments, which are the basis for measurement. IFRS 9 introduces a simplification because the business model is a basis for measurement of financial instruments. The measurement at amortized cost is the same in wording, but the calculation is different. Under IAS 39 the cash flows from the financial instrument, with the use of effective interest rate, are evenly divided until the maturity of the instrument. IFRS 9 retains the use of the effective interest rate for discounting the future cash flows, and for calculation of the expected credit losses for the financial instrument. As shown in Figure 1, with the introduction of IFRS 9 the category available for sale no longer exists and the financial instruments are measured at fair value through other comprehensive income, where both the change in fair value and provisions for expected credit losses are taken into the measurement. The measurement at fair value through profit or loss are the same in IFRS 9 and IAS 39.

Some authors (Onali & Ginesti, 2014, p. 636; Onali, Ginesti, & Ballestra, 2017, p. 76) note, on the basis of research, that investors embraced positively accounting reform in the field of financial instruments and solve the problems of the standard IAS 39, particular in the countries which have bigger differences in the implementation of accounting rules.

4.2 SWOT analysis of IFRS 9 compared to IAS 39

In this chapter, we analyze and summarize the strengths and weaknesses as well as the opportunities and threats (SWOT) for IFRS 9. The strengths of IFRS 9 are the following:

- the reduction of complexity of the classification and measurement,
- accounting is in line with business strategy,
- extensive disclosures in any changes of business model,
- addressing issues arising from the financial crisis,
- simplification of hedge measurement (Huian, 2012, p. 42),
- focus on shareholders,
- the proper detection of losses,
- comparability and the unification of the accounting and financial reporting,
- improved consistency and transparency of reporting with global competitors,
- better access to foreign capital investment (Ghasmi, 2016, pp. 28–30),
- activities of the organization are related to risk management, the management of financial instruments and cash flows (Beerbaum & Piechocki, 2017, p. 85)
- better information for investors and
- early building up of “reserves” (Wahrenburg, 2017, p. 13).

Weaknesses we can group into the following:
- the introduction of new concepts (business model), which require more professional judgment, with the subjectivity,
- many options and different accounting treatments on several aspects,
- no systematic approach to financial liabilities,
- does not solve issues of hedge impairment (Huian, 2012, p. 42),
- the incompatibility of accounting systems for IAS 39 with the new IFRS 9 solutions (Ghasmi, 2016, p. 30,31)
- high volatility in earnings (Wahrenburg, 2017, p. 14).

Opportunities in accordance with IFRS 9 are defined as:
- the standard allows for professional judgment in accounting decisions,
- the possibility for reclassification for financial assets previously measured at amortized cost – and vice versa,
- the classification of financial instruments in three stages according to the change in credit risk enables better decision making because of the possibility of transition from phase 2 or phase 3 on the lower stage 1 or stage 2 (Huian, 2012, p. 42),
- the consistency of accounting requirements with regulatory requirements (Wahrenburg, 2017, p. 13).

Threats in accordance with IFRS 9, are as follows:
- reduces the comparison among organizations due to the various decisions (for example, the business model),
- allows slack in various decisions, which could lead to the decision in accordance with accounting requirements and not because of faithful presentation of a business performance in financial statements,
- the benefits are lower than the cost in the early introduction of the standard,
- the cost of implementation is relatively difficult to quantify,
- earlier introduction of standard means the comparison of both standards in presentations and disclosures, which weakens the usefulness of financial statements,
- approach with multiple stages could create mismatches because of new requirements or existing rules,
- resistance to the introduction of IFRS 9 at European Union level has created uncertainty on the side of the users and preparers (Huian, 2012, p. 42),
- the IASB as the sole standard-setter of standards,
- the possibility that only organizations listed on the stock exchange would apply IFRS 9 (in the year 2005, there were around 7000 organizations), while about 700,000 small and medium organizations do accounting according to national accounting standards (Ghasmi, 2016, p. 31),
- expected credit loss may reinforce pro-cyclicity (Wahrenburg, 2017, p. 15),
- pro-cyclical effect because of the staging where the financial instrument is moved from stage 1 to stage 2 and the parameters of calculated expected credit losses at point-in-time are higher because the increased credit risk (Rocamora, Garcia, T, Villar Burke, & Rubio González, 2017, p. 1).

CFA Institute carried out the questionnaire on IFRS 9 among its members in 2009 (CFA Institute, 2009, p. 3) in order to get an opinion on the reform of the accounting for financial instruments, the objectivity of the general assessment of the introduction of the standard and evaluation of specific solutions introduced by the standard and the use of the fair value for assets and liabilities. Respondents pointed out as the most important the improvement and the usefulness of accounting information about the financial instruments (CFA Institute, 2009, p. 5).

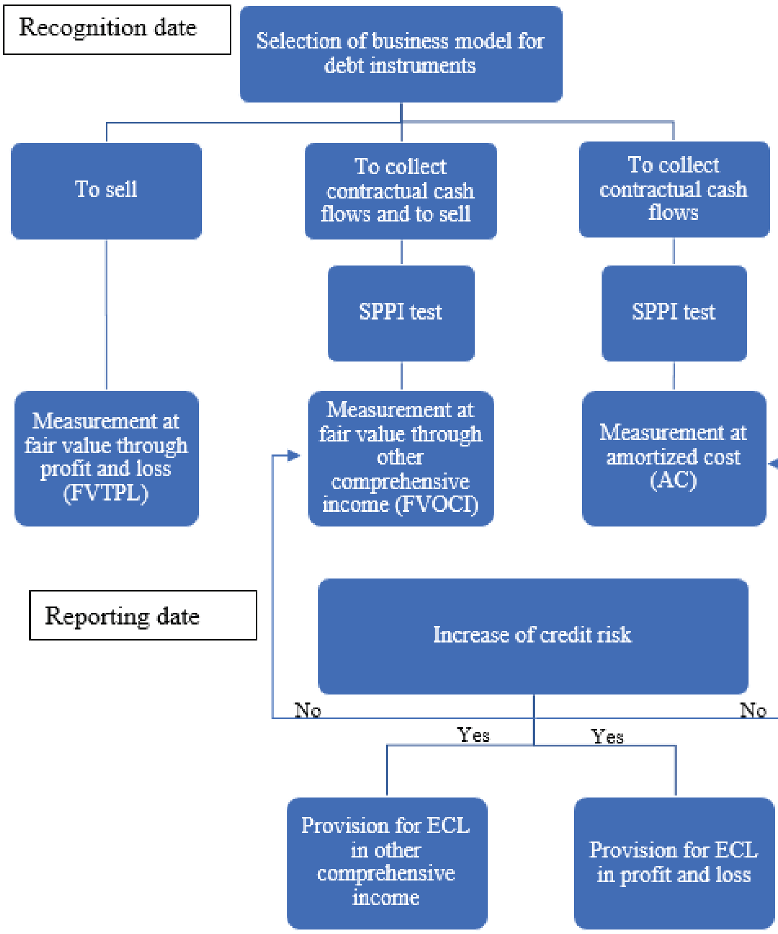
4.3 The classification and measurement of financial assets

Despite the similarities in the categories of measuring financial instruments under an IAS 39 and IFRS 9, there are differences and the changes arise mainly in the processes of organizations. All financial assets are measured on the basis of future cash flows and/or business model, in which they are included (KPMG, 2015, p. 2) after the 1st of January 2018.

In accordance with IFRS 9 organization recognizes a financial asset or financial liability in its statement of financial position only when it becomes a party to the contractual provisions of the financial instrument (European Commission, 2016, p. L 323/7). At the first recognition of the financial asset, the organization classifies it in accordance with the business model and tests the payments of principal and interest (SPPI test or test of Solely payments of principal and interests). The basic business models in accordance with IFRS are (European Commission, 2016, p. L 323/7):

- the business model of collecting contractual cash flows,
- the business model of collecting contractual cash flows and the sale, or
- the business model of selling financial instruments.

Picture 2: Decision tree for financial assets at the recognition in accordance with IFRS 9



As shown in picture 2, the initial recognition of the financial asset begins with a definition of equity or debt instrument. If the financial asset is a debt instrument and passes the SPPI test, which testes only payments of contractual cash flows such as principal and interests, the financial assets are measured at amortized cost or at fair value through other comprehensive income. If financial instrument does not pass the SPPI test is measured at fair value through profit and loss. The decision base on the business model, which is the collecting contractual cash flows or a collecting of the contractual cash flows and sales. If the contractual cash flows are repayment of obligations and surplus, which is derived from the other claims, the organization should further test only payments of principal and interest (KPMG, 2015, p. 3).

In the case of equity, the organization primarily pursues the objectives of the business model. Classification of equities is generally at fair value through profit or loss, but the organization could irrevocable measure it at fair value through other comprehensive income (FVOCI). The measurement in FVOCI constitutes a barrier because all gains and losses recognized in the other comprehensive income are never recognized in profit or loss (KPMG, 2015, p. 3). The most decisions for the classification of equity would be at fair value through profit or loss (FVTPL) because the gains and losses are recognized in profit or loss (KPMG, 2015, p. 3).

According to the IAS 39 the loans and receivables are measured to the maturity, also in accordance with IFRS 9, the loans and receivables are measured at amortized cost. For each receivable, the organization should calculate the expected credit loss, which depends on the number of days to the maturity and establishment of the appropriate provision through to profit or loss. In the case of banks, the valuation of loans and receivables in accordance with IAS 39 in the category of held-to-maturity proved to be inadequate, as the lowering of prices on the market was not reflected in the valuation of the loans, and this delay eliminates the new IFRS 9 (Linsmeier, 2011, p. 1), which recognises loss allowance immediately after purchase.

4.4 Impairment of financial assets

Impairment in accordance with IFRS 9 and IAS 39 are significantly different. Impairment in IAS 39 basis on incurred losses, while IFRS 9 introduces an impairment on the basis of expected losses (Cohen & Edwards, 2017, p. 42; IASB, 2016; Marshall, 2015, p. 15; Wahrenburg, 2017, p. 10; Xu, 2016). However, the change stems from the problems in the financial crisis and delayed recognition of losses. Model of impairment in IFRS 9 is defined as the conceptual model of loss allowance because the losses are recognized as a provision for anticipated credit losses from financial assets before they arise. Calculations are updated on each reporting date, as the difference in change in the credit risk of financial instruments (Marshall, 2015, p. 15). Organizations in connection with the impairment should significantly increase the number of assumptions and additional assessment regarding their expectations about future credit losses. The banks expressed in a questionnaire carried out by Deloitte in 2015, that the most important in the implementation of IFRS 9 is banking supervision (Deloitte, 2015, p. 5).

In addition, we present the difference between the economic and fair value of the loans, which is the basis for a subsequent accounting in accordance with IFRS 9 and the calculation of the expected credit losses. The economic value of the loans is the present value of the future cash flows expected from the borrower, and when the loans are recorded at economic values, there is no need for recognition of compensation for the loss (loss allowance), because the contractual interest covers all the expected loss for the entire period of the loan (Novotny-Farkas, 2015, p. 11). The new circumstances in the borrower change the economic value has to be adjusted due to changes in the expected probability of default of the borrower and of changes in the interest rate. The expected loss can be calculated using the formula in equation 1.

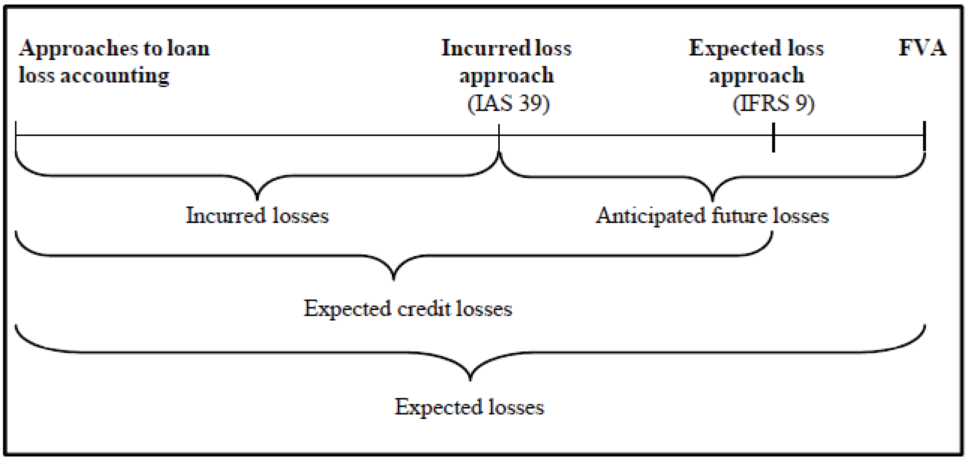
Equation 1: The calculation of expected loss amounts

$$EL_t = \sum_{t=1}^{N} (PDt(It) \frac{LGDt(It)}{(1+dr)^t}$$

Legend:
EL_t – expected life loss
$PD_t(I_{,t})$ – cumulative probability of default,
$LGD_t(I_{,t})$ – loss given default,
dr – discounted rate with which the discounted expected cash flows,
all parameters are upsized at the new information at time t (I_t).
Source: Novotny-Farkas, 2015, p. 11.

As shown in equation 1, the calculation of expected life loss is the sum of the product of the probability of default (PD_t) and loss given default (LGD_t), which adapts to new information and discounted by the effective interest rate. Only fair value accounting includes all future losses arising from changes in the credit risk, which takes into account in the probability of default (PD) and changes in market interest rates, which are included in the discounted interest rate (dr), and corresponds to the definition of the economic value of the loans (Novotny-Farkas, 2015, p. 11). The expected credit loss estimates should correspond to unbiased, probability-weighted averages as determined by evaluating a range of possible outcomes, the time valued of money and draw a reasonable and supportable information that id available at reporting date about past events, current conditions and forecasts of future economic conditions (European Commission, 2016, para. 5.5.17).

Picture 3: The recognition of credit losses in the different financial approaches



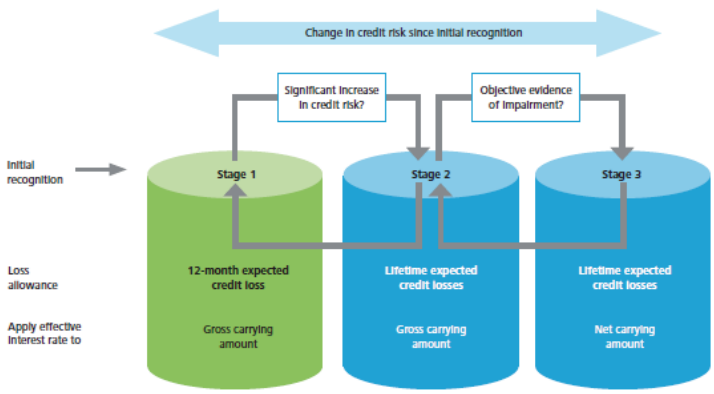
Source: Novotny-Farkas, 2015, p. 12.

As shown in picture 3, only the fair value accounting (FVA) incorporates all expected losses. The IAS 39 accounting acknowledges the losses only when the objective fact has happened then the organization should recognize the incurred losses. Accounting under IFRS 9 is an approximation of the fair value accounting because it acknowledges the anticipated future credit losses arising from the change of credit risk and market interest rates.

A model of expected credit losses under IFRS 9 is used for financial assets measured at amortised cost, and for financial assets measured at fair value through other comprehensive income, for the obligation from the loans and financial guarantees, which are not measured through the profit and loss, for leases in accordance with IAS 17 and for receivables in accordance with IFRS 15 (Marshall, 2015, p. 15). The impairment rules are for all financial assets in “trading portfolio” that are not accounted at fair value through profit and loss (Edwards Jr, 2016, p. 3).

The impairment in accordance with IFRS 9, based on the model of the expected credit losses, has three stages, as shown in picture 4. The financial asset on initial recognition is normally placed in stage 1 with the calculation of the 12-month expected credit loss. The provision for 12-month expected credit loss is recognized in profit or loss. On the first reporting date, the organization compares the credit risk of the financial instrument from the initial recognition to the reporting date. If credit risk increases significantly the calculation of lifetime expected credit risk is performed, which means that the instrument moves from stage 1 to stage 2. At the same time, the additional provisions are formed as a difference between 12-month and lifetime expected losses. The provision for lifetime expected losses is usually several times larger than calculated 12-month expected credit loss. If on the next reporting date, the credit risk reduces, there is a transition from stage 2 back to stage 1, which means the removal of the provision from a lifelong expected credit loss to 12-month expected credit losses. From stage 2 to stage 3 are classified those financial instruments with objective facts for impairment as it was in accordance with IAS 39. In stage 3 the future cash flows are calculated to net book value instead of gross book value.

Picture 4: A unified model of impairment after IFRS 9



Source: Deloitte, 2016, p. 10.

As can be seen from the picture 4, stage 1 includes financial instruments with an insignificant increase in credit risk at the reporting date or financial instruments with low credit risk. For such assets is recognized 12-month expected credit loss in profit or loss. 12-month expected credit loss represents a credit loss as a result of defaults, which we can expect in the next twelve months after the reporting date (12-month ECL = 12-month probability of default x LGD x discounted cash flow). (Novotny-Farkas, 2015, p. 13). The 12-month expected credit loss is recognized as an expense in the statement of profit and loss and loss allowance in the statement of financial position (Cohen & Edwards, 2017, p. 42) and serves as a proxy value for the initial expectations on credit losses.

Stage 2 includes financial instruments with a significant increase in the credit risk from the initial recognition or purchase, but there are no objective circumstances for impairment. The provisions for lifetime expected credit loss is recognized in the financial statements (Cohen & Edwards, 2017, p. 43; Deloitte, 2016, p. 10; Novotny-Farkas, 2015, p. 13).

Stage 3 of figure 4 includes those financial instruments with an objective factor for impairment on the reporting date and recognition of the lifetime credit loss (but prior to the actual default) and the recognition is earlier than in accordance with IAS 39 (Novotny-Farkas, 2015, p. 13). The credit quality of financial instrument deteriorates to the point that the credit loss is incurred and the asset is credit-impaired (Cohen & Edwards, 2017, p. 43).

The difference between stage 2 and stage 3 refers to the recognition of interest. In stage 3 the interests are calculated on the basis of the adjusted value of gross book value less net claims adjustment, similar to IAS 39 (Novotny-Farkas, 2015, p. 13).

As we mentioned, IFRS 9 based on principles, so the organization itself define the significant changes in the credit risk. The organizations should define the key triggers (defining default, change in credit risk, a significant increase, rating, PD, LGD) in their internal acts.

From the perspective of financial instruments belonging to the business model of selling which are measured at fair value through profit or loss (FVTPL), measurement and impairment have never been the subject of debate. IFRS 9 introduces a new model the impairment in a business model of collecting cash flows and business model to collecting the cash flows and sales, where the accounting on the basis of the events in the past, moves in the expected loss model (KPMG, 2015, p. 4). The organization should calculate the expected credit losses at each reporting date. The calculations are detailed and complex and include calculations for the whole portfolio of the organization, and the new model introduces the impairment on the day after purchasing a financial asset (Deloitte, 2016, p. 4).

The new model of impairment on the basis of the expected credit losses assumes that organizations are able to measure the expected credit losses and on the reporting date are able to verify a significant increase in credit risk (KPMG, 2015, p. 4).

The model of expected credit losses generally uses the dual approach of measurement, which means that the credit risk is included in the price of a financial instrument at purchase, and has a provision for expected credit losses the next day after purchase.

5 CONCLUSION

D’Alterio (2015, p. 18) discussed, that the IAS 39 allowed greater lending and credit expansion, unrealized profits and unwarranted bonuses and dividends and it had a lack of prudence. The Basel Committee and the academic research in the years after the crisis shows, that there is no evidence to support the statement that fair value accounting in accordance with IAS 39 triggers or even extends financial crisis.

Similarly, we can confirm from the bank's figures that failed in the financial crisis. If we compare the data relating to their financial stability in the last audited annual report, we can conclude, that the latest audit annual report was positive (Hollow, Akinbami, & Michie, 2016, p. 298). In the United States in 2009 failed 140 banks, of which 120 publicly released financial statements from which it was apparent that their capital was in accordance with the relevant regulation (Linsmeier, 2011, p. 1).

The IFRS 9 represents a new approach in accounting (forward-looking) and imposes the overall change in management of financial instruments involving processes in entire organization and the organizational structure.

In the fair value accounting there is a requirement to recognize the expected credit losses earlier and not only to recognise the unrealized gains and losses (D'Alterio, 2015, p. 18). Overwhelming evidence in professional literature in the field of accounting suggests that early recognition of future losses is a crucial even for the supervisory institutions which could implement corrective action in the time (D'Alterio, 2015, p. 18). The fair value accounting allows the identification of changes in credit risk exposure and the risk because of changes in interest rates, which are the key risks to which are exposed the financial organizations (Linsmeier, 2011, p. 6).

Increased confidence in the financial markets, the greater independence of financial institutions and greater complexity of business and organisational structures contributed before the crisis to the various decisions that have a basis in a variety of technical accounting solutions (Hollow et al., 2016, p. 299), but lost the confidence is returning with the qualitative characteristics of the standards that emphasize the importance of the reliability of the presentation, comparability, verifiability, timeliness and understandability of the presented accounting data (International Accounting Standards Board, 2010, p. 16).

The replacement has an effect on the accounting, on decision making and in the strategy of the organization. At the level of the European Union change in accounting policies has been made in more than 7,000 organizations in 2005 committed to consolidate accounts in accordance with international financial reporting standards, of which 5,323 organisations are issuers of shares and thus committed to making statements in accordance with IFRS (Pope & McLeay, 2011, p. 1). According to the World Bank for the year 2014, there were in the European Union 8,681 organizations, which were listed on the stock market, at the same time the IFRS accounting are using also banks, insurance companies, and asset management companies (World Bank, 2016).

The IFRS 9 was introduced at the first time on 1st of January 2018. Further research could focus on differences in financial statements, mainly on provisioning for expected credit losses, on calculations of expected credit losses and on changes in processes in organizations because of the new IFRS 9 which introduces the measurement of financial instruments according to the selected business model.

REFERENCE LIST

1. Ahrens, T., & Chapman, C. S. (2006). Doing qualitative field research in management accounting: Positioning data to contribute to theory. *Accounting, Organizations and Society*, *31*(8), 819–841. https://doi.org/10.1016/j.aos.2006.03.007
2. Beerbaum, D., & Piechocki, M. (2017). IFRS 9 for Financial Institutions – The Case for IFRS and FINREP Taxonomies – A Conceptual Gap Analysis. *Journal of Accounting, Finance and Auditing Studies*, *3*(1), 80–90.
3. Benston, G. J., Bromwich, M., & Wagenhofer, A. (2006). Principles-versus rules-based accounting standards: the FASB's standard setting strategy. *Abacus*, *42*(2), 165–188.
4. Bischof, J., & Daske, H. (2016). Interpreting the European Union's IFRS Endorsement Criteria: The Case of IFRS 9. *Accounting in Europe*, *13*(2), 129–168. https://doi.org/10.1080/17449480.2016.1210181
5. Brkovic, M. (2017). IFRS 9 implementation in banks and macroeconomic scenarios: Some methodological aspects. *Bankarstvo*, *46*(3), 36–51. https://doi.org/10.5937/bankarstvo1703036B
6. Burns, J. (2014). Qualitative management accounting research in QRAM: some reflections. *Qualitative Research in Accounting & Management*, *11*(1), 71–81. https://doi.org/10.1108/QRAM-02-2014-0017
7. Burns, J., & Scapens, R. W. (2000). Conceptualizing management accounting change: an institutional framework. *Management Accounting Research*, *11*(1), 3–25. https://doi.org/10.1006/mare.1999.0119
8. Carmen, H. M. (2013). Analysis Of The Constituents' Participation In The Development Of The 1st Phase Of Ifrs 9 Financial Instruments. *Annals - Economy Series*, *1*, 209–216.
9. CFA Institute. (2009). International Financial Reporting Standards (IFRS) Financial Instrument Accounting Survey. *CFA Institute*, 1–29.

10. Cohen, B. H., & Edwards, G. A. (2017). The new era of expected credit loss provisioning. *BIS Quarterly Review*, 39–56.
11. D'Alterio, E. (2015). VIII. EUROPE IN THE GLOBAL SPACE. *Directorate General for Internal Policies*, 1–52.
12. Deloitte. (2015, September). *Fifth Global IFRS Banking Survey*. Retrieved 28 June 2016, from http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-fifth-banking-ifrs-survey-full.pdf
13. Deloitte. (2016, April). *IFRS in Focus, IFRS 9: Financial Instruments – high level summary*. Deloitte Touche Tohmatsu Limited. Retrieved from http://www.iasplus.com/en/publications/global/ifrs-in-focus/2016/ifrs-9/at_download/file/IFRS%20in%20Focus%20IFRS%209%20April%202016.pdf
14. Edwards jr, G. A. (2016). Supervisors' key roles as banks implement expected credit loss provisioning. *SEACEN Financial Stability Journal*, *7*, 1–25.
15. European Commission. (2016, November 22). Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (Text with EEA relevance). Official Journal of the European Union. Retrieved from http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R2067&from=EN
16. Frèrejacque, P. (2014, October). *From IAS 39 to IFRS 9*. Vienna. Retrieved from http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/3/524961426611752780/Pascal-Frerejacque-From-IAS-39-to-IFRS-9-An-overview.pptx
17. Ghasmi, H. M. (2016). Deliberative and comparative study of international financial reporting standards IFRS 9. *International Journal of Science Research and Technology*, *2*(2), 23–32.
18. Gornjak, M. (2017). Comparison of IAS 39 and IFRS 9: The Analysis of Replacement. *International Journal of Management, Knowledge and Learning*, *6*(1), 115–130.
19. Ha, Y. S. (2017). *Transition to IFRS 9 : Practical Guidance for the Foreign Reserves of Central Banks*. Washington, DC: World Bank. Retrieved from https://openknowledge.worldbank.org/handle/10986/27471
20. Hollow, M., Akinbami, F., & Michie, R. (2016). *Complexity and Crisis in the Financial System*. Northampton: Edward Elgar Publishing. Retrieved from http://www.elgaronline.com/view/9781783471324.xml
21. Hoogervorst, H. (2016, January 11). *Introductory comments to the European Parliament*. International Accounting Standards Board. Retrieved from http://www.ifrs.org/Alerts/Conference/Documents/2015/Hans-Hoogervorst-speech-Jan-2016.pdf
22. Hronsky, J. (2010). IFRS 9, Impairment and Procyclicality: Is the Cure Worse Than the Disease? *JASSA*, (4), 55–59.
23. Huian, M. C. (2012). Accounting for Financial Assets and Financial Liabilities According to IFRS 9. *Annals of the Alexandru Ioan Cuza University - Economics*, *59*(1). https://doi.org/10.2478/v10316-012-0002-0
24. Humphrey, C., & Scapens, R. W. (1996). Methodological themes: Theories and case studies of organizational accounting practices: limitation or liberation? *Accounting, Auditing & Accountability Journal*, *9*(4), 86–106. https://doi.org/10.1108/09513579610129435
25. IASB. (2009, November 12). *IASB completes first phase of financial instruments accounting reform*. Retrieved from https://www.iasplus.com/en/binary/pressrel/0911ifrs9.pdf
26. IASB. (2016). *IFRS 9 Financial instruments*. International Accounting Standards Board. Retrieved from http://eifrs.ifrs.org/eifrs/bnstandards/en/2016/ifrs09.pdf
27. International Accounting Standards Board (Ed.). (2010). *Conceptual framework for financial reporting 2010*. London: IFRS Foundation Publ. Department. Retrieved from http://www.ifrs.org/News/Press-Releases/Documents/ConceptualFW2010vb.pdf
28. Kaplan, R. S. (1984). The evolution of management accounting. *The Accounting Review*, 390–418.
29. KPMG. (2014, September). *First Impressions: IFRS 9 Financial Instruments*. KPMG IFRG Limited. Retrieved from https://home.kpmg.com/content/dam/kpmg/pdf/2014/09/First-Impressions-O-201409-IFRS-9-Financial-Instruments.pdf
30. KPMG. (2015, June). *IFRS 9 creates specific challenges for insurers*. KPMG LLP. Retrieved from https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/8947-ifrs-9-insurers-eng-web-f.pdf

31. Kristof, T., & Virag, M. (2017). Lifetime Probability Of Default Modeling For Hungarian Corporate Debt Instruments (pp. 41–46). *ECMS*. https://doi.org/10.7148/2017-0041
32. Liguori, M., & Steccolini, I. (2012). Accounting change: explaining the outcomes, interpreting the process. *Accounting, Auditing & Accountability Journal*, *25*(1), 27–70. https://doi.org/10.1108/09513571211191743
33. Linsmeier, T. J. (2011). Financial Reporting and Financial Crises: The Case for Measuring Financial Instruments at Fair Value in the Financial Statements. *Accounting Horizons*, *25*(2), 409–417. https://doi.org/10.2308/acch-10024
34. Marshall, R. (2015). *Adoption of IFRS 9 Financial Instruments*. European Financial Reporting Advisory Group. Retrieved from http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FIFRS_9_DEA_-_May_4_2015_-_final.pdf&AspxAutoDetectCookieSupport=1
35. Mat, T. Z. ., Smith, M., & Djajadikerta, H. (2010). Management Accounting and Organisational Change: An Exploratory Study in Malaysian Manufacturing Firms. *Journal of Applied Management Accounting Research*, *8*(2), 51–80.
36. Miu, P., & Ozdemir, B. (2016). Adapting Basel's A-IRB Models for IFRS 9 Purposes. *SSRN Electronic Journal*, 1–35. https://doi.org/10.2139/ssrn.2819101
37. Modell, S. (2005). Triangulation between case study and survey methods in management accounting research: An assessment of validity implications. *Management Accounting Research*, *16*(2), 231–254. https://doi.org/10.1016/j.mar.2005.03.001
38. Moody's. (2016). Risk Chartis Market Report: IFRS 9. *Incisive Risk Information Ltd*, 1–24.
39. Novotny-Farkas, Z. (2015, October). *The Significance of IFRS 9 for Financial Stability and Supervisory Rules*. European Union, Policy Department A: Economic and Scientific Policy. Retrieved from http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563461/IPOL_STU(2015)563461_EN.pdf
40. Onali, E., & Ginesti, G. (2014). Pre-adoption market reaction to IFRS 9: A cross-country event-study. *Journal of Accounting and Public Policy*, *33*(6), 628–637. https://doi.org/10.1016/j.jaccpubpol.2014.08.004
41. Onali, E., Ginesti, G., & Ballestra, L. V. (2017). Investor reaction to IFRS for financial instruments in Europe: The role of firm-specific factors. *Finance Research Letters*, 72–77. https://doi.org/10.1016/j.frl.2017.01.002
42. Petchchedchooa, P., & Duangployb, O. (2017). AFS versus FVTOCI: Twins or Siblings? *International Journal of Business*, *22*, 1.
43. Pope, P. F., & McLeay, S. J. (2011). The European IFRS experiment: objectives, research challenges and some early evidence. *Accounting and Business Research*, *41*(3), 233–266. https://doi.org/10.1080/00014788.2011.575002
44. Rocamora, M., Garcia, P., T, C., Villar Burke, J., & Rubio González, A. (2017). *IFRS 9*. Pro-Cyclicality of Provisions. Spanish Banks as an Illustration. Retrieved from https://papers.ssrn.com/abstract=3120445
45. Scapens, R. W. (1994). Never mind the gap: towards an institutional perspective on management accounting practice. *Management Accounting Research*, (5), 301–321.
46. Schiller, S. (2010). Management accounting in a learning environment. *Journal of Accounting & Organizational Change*, *6*(1), 123–148. https://doi.org/10.1108/18325911011025722
47. Siti-Nabiha, A. K., & Scapens, R. W. (2005). Stability and change: an institutionalist study of management accounting change. *Accounting, Auditing & Accountability Journal*, *18*(1), 44–73. https://doi.org/10.1108/09513570510584656
48. Steen, M. van der. (2011). The emergence and change of management accounting routines. *Accounting, Auditing & Accountability Journal*, *24*(4), 502–547. https://doi.org/10.1108/09513571111133072
49. Vaivio, J. (2008). Qualitative management accounting research: rationale, pitfalls and potential. *Qualitative Research in Accounting & Management*, *5*(1), 64–86. https://doi.org/10.1108/11766090810856787
50. Wahrenburg, M. (2017). *Provisioning policies for non-performing loans: How to best ensure a 'clean balance sheet'?* (White Paper Series No. 51). Frankfurt: SAFE - Sustainable Architecture for Finance in Europe. https://doi.org/10.2861/750162
51. World Bank. (2016, October 2). *Listed domestic companies*. Retrieved 2 October 2016, from http://data.worldbank.org/indicator/CM.MKT.LDOM.NO?end=2015&start=2005&year_low_desc=false

52. Xu, X. (2016). Estimating Lifetime Expected Credit Losses Under IFRS 9. *Available at SSRN 2758513*. Retrieved from http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2758513
53. Yang, B. H. (2017). Point-in-time PD term structure models for multi-period scenario loss projection: Methodologies and implementations for IFRS 9 ECL and CCAR stress testing. *Munich Personal RePEc Archive*, (76271), 1–17.