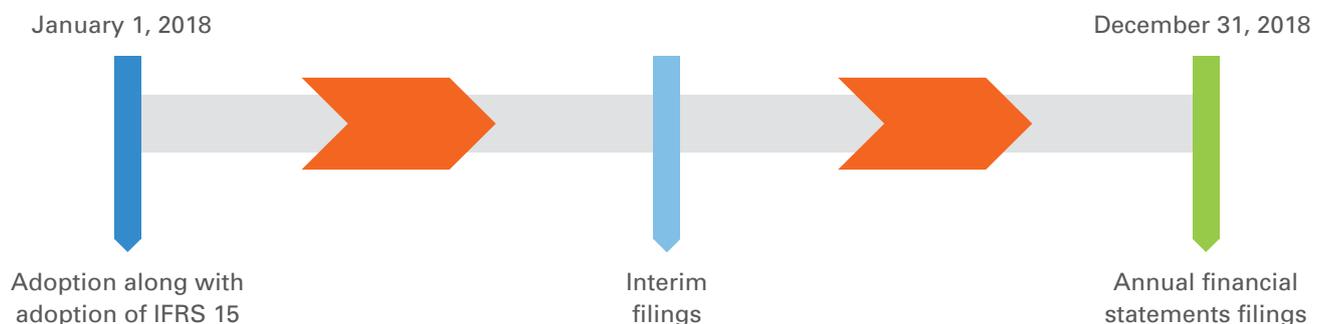


The International Accounting Standards Board (IASB) published the final version of IFRS 9, 'Financial Instruments' in July 2014. IFRS 9, 'Financial Instruments' has replaced IAS 39, 'Financial Instruments: Recognition and Measurement', and is effective for annual periods beginning on or after January 1, 2018 (with earlier adoption permitted). The new standard, apart from prescribing the classification and measurement of financial assets and financial liabilities, also includes a new impairment methodology using an *expected credit loss* model, which *replaces* the current *incurred loss model* under IAS 39.



OVERVIEW OF CLASSIFICATION OF FINANCIAL ASSETS

IFRS 9 classifies financial assets into the following measurement categories:

- Amortized cost
- Fair value through other comprehensive income ("FVOCI")
- Fair value through profit or loss ("FVTPL")

The qualitative and quantitative analysis involving classification of financial assets is based on both of the following:

- The entity's business model for managing the financial assets (i.e., the "business model test").
- The contractual cash flow characteristics of the financial assets (i.e., whether contractual cash flows are solely payments of principal and interest – the "SPPI test").

Application to these standards will require a detailed analysis of pertinent agreements, facts and circumstances along with the appropriate knowledge and expertise on interpreting the standard; significant disclosures and judgment; and valuation of embedded derivatives (which are now required to be fair valued in their entirety).



HOW SRCO CAN ASSIST WITH YOUR TRANSITION TO IFRS 9

SRCO has developed a diagnostic tool to assist companies with the adoption of these new and complex accounting standards. We work with our clients in a collaborative manner for adoption of new standards as described below:

Phase I: Gap analysis involves identification of differences between existing (IAS 39) and new financial instruments standards, and assessing the impact on operational and IT processes.

Phase II: Solution development involves developing work programs, setting milestones, communicating project plan, drafting white papers, preparing financial statements, completing disclosure checklist, developing IT solutions and presenting to the Audit Committee, Board of Directors and finally coordinating regular and timely review by internal and external auditors.

Phase III: Implementation Procedures and Guidelines involves accounting policies, processes and procedures documentation, IT solutions implementation, downstream business impacts assessment, financial statement closing process modification, detailed technical review, stakeholders reporting revision and finally education and orientation.

Phase IV: Post Implementation Review includes compliance with policies, procedures and disclosure requirements, and alignment of subsidiaries, associates and joint ventures to holding company's accounting policies and disclosures.

SRCO provides regular reports on the project and change management throughout the various phases including regular meetings with various stakeholders and regular updates to senior management and the Audit Committee.

OUR EXPERIENCE

- SRCO specializes in assisting businesses in the implementation of the newly issued IFRS
- We have experience in assisting in the implementation of IFRS 9 for over 100 private and public companies in Saudi Arabia and Canada
- Our industry experience in Saudi Arabia and Canada includes financial institutions like commercial banks, merchant banks, investment companies, non-banking financial corporations as well as some entities involved in construction, retail, and manufacturing industry
- Our IFRS lead partner, Sameer Parekh, is an acknowledged expert in the implementation of IFRS 9, having assisted two of the top 10 banks in Canada with the IFRS 9 implementation

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