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REVIEWING INTERNATIONAL FINANCIAL REPORTING STANDARD 9: FINANCIAL INSTRUMENTS

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Abstract:

The most controversial accounting standard of the past decade, IAS 39 Financial Instruments: Recognition and Measurement, and its American equivalent FAS 133 Derivative Instruments and Hedging Activities" and FAS 157 "Fair Value Measurements" have regained their status as a global focus of public debate since the beginning of the current crisis. After recent harsh criticism, standard-setters have launched several targeted projects in considering accounting issues arising from the crisis. The result so far is Publishing of IFRS 9 Financial Instruments issued by the IASB and Exposure Draft on Financial Instruments issued by the FASB. Bankers and companies facing huge challenges in understanding and applying the International Financial Reporting Standard 9 Financial Instruments (IFRS 9). This lack of understanding opens the horizons of doubts and this study examines the International Financial Reporting Standard 9 Financial Instruments (IFRS 9) to facilitate its understanding, value and application for bankers. Furthermore, one of the major tools that the study used is the historical proactive to attain a better recognition and application of the (IFRS 9).

Keywords: IFRS9, IAS 39, measurement, Classification, Impairment, Hedge accounting

1.INTRODUCTION

IAS 39 has come under fire for being overly complicated, out of step with how organizations manage their businesses and risks, and delaying the recognition of credit losses on loans and receivables until too late in the credit cycle. IFRS 9 replaces IAS 39, Financial Instruments – Recognition and Measurement. IFRS 9 replaces IAS 39, Financial Instruments – Recognition and Measurement. IFRS 9 replaces IAS 39 Financial Instruments – Recognition and Measurement. This addresses criticism that IAS 39 is overly complex, inconsistent with how businesses manage their businesses and risks, and that credit losses on loans and receivables are recognized too late in the credit cycle. It is designed to The IASB had always intended to revisit his IAS 39, but the financial crisis prioritized it.

In the new millennium, the announcement of cases of financial fraud creates a shock to the business community as seen in the collapse of the, WorldCom company. In fact, WorldCom company was purposely hiding its expenses in its capital expenditures and when its accounts were reopened, it suffered from heavy losses about to $5 billion. Thereafter, in December 2001 the famous collapse of the Enron company popped up, which harmed the accounting and business sector as a whole. Simultaneously, many companies such as Bernard Madoff, Health Home, Parmalat, Fannie Mae, Tyco and Satyam have witnessed several collapses. As a consequence of that, most of the proxy of investors and analysts have shied away from relying on the accounting information as an input from their investment and credit decisions models in that period of time.

The accountancy profession encountered a great deal of embarrassment, which led to the loss of its credibility as a reliable source of information. The lack of trust in the accountancy profession is mostly attributed to the misconducts of a few people, who were particularly pushed by a deep sense of greed and private benefits. Such misconducts have significantly caused a great damage to the wealth of society all over the world as Fillip (Anssari, M. A. A., & Al-Tamimi, S. A. 2023) asserts: "As a result of these failures, the US Congress passed the Sarbanes-Oxley Act of 2002, and one of the main headlines of this law is investor protection by improving the accuracy and reliability of corporate disclosures made in accordance with the securities laws" (Louwers, et al. 2018 and Anssari, M. A. A. 2023) also share the opinion that:

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"Sarbanes–Oxley Act (the most comprehensive financial reporting legislation since the Securities Acts of 1933 and 1934). The law was passed in direct response to the scandals and aimed to strengthen corporate financial reporting by assessing harsher criminal penalties for white-collar crimes, increasing management accountability, and enhancing public accounting firm independence."

In 2007 and 2008, the American banks have suffered from a huge losses wave. This is because such banks have lent long-term loans i.e., mortgage loans to citizens to enable them to purchase real estate without taking from them sufficient guarantees. This reckless behavior has contributed to the emergence of the financial crisis. Some critics like Smith (2010) argue that "there are several issues were behind the financial crisis of which related to the core of the American financial system specifically Collateralized Debt Obligations (CDO), the housing bubble and the failure of government bailouts to revitalize the economy, despite the relentless efforts for saving it from collapse". In addition, Orbán and Al-Tamimi (2020) argue that "the main reason for the financial crisis results from the problem of mortgage loans, which arose from the failure to observe the basic principles of risk management such as prudence and creditworthiness as a main condition for lending". In this light, in November 2009, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) submitted a new draft as requested by the G20, investors, regulators, and prudential experts to improve accounting requirements for financial instruments. This draft relates to amortized cost and impairment of financial instruments, which will offer valuable data for financial reports users to help them assess the amount and timing of future cash flows. For Ernst and Young (2014) "The draft also included an impairment model based on expected losses rather than losses incurred, for all financial assets carried at amortized cost".

Moreover, Hoogervorst (2018) states that "In July 2014, the International Accounting Standards Board issued the final version of (IFRS9) for financial instruments based on what the G20 wanted". Ernst and Young (2014) demonstrate that the (IFRS9) "combines classification and measurement, impairment and hedge accounting to replace *International Accounting Standard* (IAS39) and all previous versions of the new standard". The above-mentioned argument traced the evolution and issuance of the (IFRS9) to replace the (IAS39), which was complex to be understood and difficult for users to apply. So as a result, the IFRS 9 is active from or after the 1st of January 2018, however the IASB provided entities for whose predominate activities are insurance about of the option of delaying the implantation to the 2021.

1.1 History of IFRS 9

The International Accounting Standards Board (Board) adopted IAS 39 Financial Instruments (Recognition and Measurement) in April: that the International Accounting standards committee has issued its original version had been issued in March 1999. As long as the board had his own intention of replacement of the IAS 39 by IFRS 9, parallel to the requests from interested parties to improve the accounting of the financial instruments. So, moving to November 2009 the board finally issued the IFRS financial instrument's chapter which shows the clear classification and measurement of the financial instrument, then in October 2010 there was the adding of of the requirements related to the classification and measurements of the IFRS 9 liabilities, with including the requirements on embedded derivatives and how to account for changes in own credit risk on financial liabilities designated under the fair value option. Also, during October 2010 there was a decision from the board to forward carrying the unchanged from IAS 39 the requirements related to the derecognition of financial assets and financial liabilities. Because of these changes and a restriction of IFRS 9 and its own basis for conclusions has begun. Finally, the Board deferred
the mandatory effective date of IFRS 9 in December 2011.

The Board added in November 2013 the chapter Hedge Accounting. The IFRS 9 had begun to permit the entity as its accounting policy either the choosing to apply the hedge accounting requirements of IFRS 9 or to continue to apply the hedge accounting requirements in IAS 39. IFRS has a great effectiveness (with limited exceptions for entities that issue insurance contracts and entities applying the IFRS for SMEs Standard), IAS 39, remain effective by containing only its requirements for hedge accounting

The completed version of IFRS 9 has been published by the board in July 2014 with making a limited amendments to the classification and measurement requirements of the financial assets through addressing narrow range of application questions with introducing a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

12 October 2017 was the date of issuing the IASB prepayment features with the negative compensation "Amendments to IFRS 9" for addressing the concerns about how IFRS 9 financial instrument classification particular prepayable financial assets.

In 14 May 2020 Annual has been amended by Improvements to IFRS Standards 2018–2020 (fees in the '10 per cent' test for derecognition of financial liabilities). In August 2020 the Board has issued the Interest Rate Benchmark Reform (Phase 2) which

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requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating emendation.

2. LITERATURE REVIEW

In 2018, Financial Reporting Standard No. 9 became mandatory for application in Europe. Because banks have implemented the standard recently, empirical evidence of its true effects is scarce (Groff & More, 2021, from Slovenia, Groff & Mörec argues, that the transition to FRS 9 should lead to an increase in the value of assets and a decrease in bank equity However, this effect has been ambiguous in light of conditions characterized by the combined effects of optimistic macroeconomic outlook and strong regulatory intervention related to large-scale loan portfolio restructuring. The authors examined the impact of the first-day transition to FRS 9 on the level of loan impairment. And the total equity of banks in Slovenia, one of the countries of the European Union, which in 2013 carried out a large-scale restructuring of banks with the help of the state.

The study provided an insight into the impact of institutional and regulatory status on the effects of IFRS 9 implementation, by conducting a comparative analysis on the banks that transferred the declining loan portfolio to the state banking asset Management Company and all other banks. In line with expectations, the study found that banks that did not have extensive asset portfolio improvements recognized the additional loan depreciation when moving to Reporting Standard No. 9, while the opposite effect was observed for banks that conducted state-assisted loan portfolio restructuring.

In a broad study of the European banking sector, Ye Love and colleagues, one of the objectives of Reporting Standard No. 9 is to increase financial stability. If credit risk is managed in an effective manner, credit losses are recognized in a timely manner and increased transparency, the standard will be implemented in a way that actually achieves this goal. The standard will be relevant in times of crisis, as the study confirms that the transparent initial application of measurement categories, and the timely recognition of credit losses through impairment, leads to outstanding loans better reflecting their economic value (Loew et al. 2019). The sample of this study consisted of 78 regulated banks subject to supervision by the European Central Bank, and they observed that the negative impact on regulatory capital, mostly due to increased depreciation, reduced bank equity by 1.8%. The study also showed that banks reclassified only 4.6% of financial assets. Moreover, out of the 78 banks analysed, only 9 banks reported a combined positive effect of impairment of financial assets and provisions for off-balance sheet exposures on bank equity.

From Croatia, the Farvic and Farovic study was characterized as an applied research study that explores and analyzes the problem of implementing IFRS 9, through the application of a new impairment model for financial instruments, through which the entity can measure expected credit losses, as the use of this model is related to the credit risk of the company and its main variables: exposure at default (EAC), loss at default (LGD) and probability of default (Volarevic & Varovic, 2018 and Al-Tamimi, S. A., & Al Anssari, M. A. 2022) (PD).

"Default risk" is an interpretation of credit risk and is the suspicion that a borrower may not repay a loan (or any type of debt) so the lender may lose the principal, the interest on the loan, or both. The calculation of PD is based on a specific methodology of two different solutions, first, the PD is taken as external data from authoritative rating agencies, and second, in the absence of an external rating an internal model must be created to calculate the PD (PD). The study was applied to a sample of Croatian business sector companies classified as top entrepreneurs. Noting that the Croatian Accounting Law considers the responsibility for implementing FRS 9 not only the task of the accounting department, but there is a need for cooperation across many departments, including the risk management department, the experts of the macroeconomic department, the treasury department and information technology. They all need to be involved in developing the internal IFRS 9 form and determining the loss methodology for estimating credit risk and calculating impairment.

The above-mentioned sections have presented a decision proposal to be taken by senior management (the board of directors), after agreement with the external auditors. In other words, the study aimed to provide guidance from those experts on how to adopt the ECL decline model and what needs to be considered for its effective implementation.

Awadeh conducted a study following the application of Financial Reporting Standard 9 to the financial statements in a sample of 16 banks from the State of Palestine and 15 banks from Jordan. The results showed that there was no significant effect on the two lists, as the researcher explained that, because all banks operating in Palestine and Jordan do not adjust the numbers of the comparison periods, as is permitted according to Financial Reporting Standard 9, but he continues saying, however, that the data provided enables him to Conducting further analyses to affect each account within the list of property rights, and accordingly the study found that there are different effects at the level of one bank, in the re-evaluation reserve account in the list of owners' equity, and these effects were substantial in the banks of both countries. The researcher studies the effect of

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calculating the provision for impairment in financial instruments on the statement of comprehensive income, special provisions, general provisions, and capital adequacy for the sample banks when applying the financial reporting standard 9. There is a significant effect, according to the statistical results, but we did not find what accounts for it. As for the third axis, it was about the difficulties facing the banks of the research sample when applying the financial reporting standard 9. The results showed that there are many difficulties in several areas, including, applying the business model, determining the characteristics of cash flows of financial instruments, determining the increase in credit risk, and the related cost disclosure. The study did not provide explanations for the difficulties. The study did not address the impact on the income statement because criterion 9 causes more changes in the income statement as it will increase the risks of measuring assets at fair value while recognizing changes in fair value in profit and loss when they occur" (Awadeh, 2019).

Urban and Al-Tamimi examined the effect of replacing Financial Reporting Standard 9 with IAS 39 on the amount of loan loss provisions, using the financial data of a sample that focused on the largest For banks in Europe, the study concluded that the new adjustment for the depreciation of financial instruments does not have a significant impact on the total amount of expected credit losses for the largest banks in Europe, and it did not find a difference in calculating the provision for expected losses in single-country banks, while there was a difference Among the banks of different European countries" (Orbán & Tamimi, 2020 and Al Sabti, A. A. A., & Anssari, M. A. A. 2022).

In a critical study, Nadia and Rosa in Italy "examined the impact of accounting standards on bank liquidity and emphasized the main weaknesses in the contents of the IASB 2010 conceptual framework, and Financial Reporting Standards 7 and 9 (Nadia & Rosa, 2014 and Alshawi, E. J., Al-Tamimi, S. A., Anssari, M. A. A., & Hanoon, M. F. 2023). The authors begin their research by criticizing the concept of The business model contained in Reporting Standard 9 for the classification of financial assets, that the distinction between assets that are valued at amortized cost and fair value is related to "recurring sales", and not to the economic substance of the transaction, and at the same time the standard allowed banks to decide to sell financial assets not for commercial reasons, but from for "portfolio rebalancing" intended for cash flow purposes. If this is the case, the requirements of IFRS 9 "will result in fair value through comprehensive income. Instead, the authors propose a solution to this problem. Rather than relying on rules-based "repeat sales" as the basis for differentiation, the criterion should be based on a principled requirement, focused on "reasons for rebalancing" of the portfolio. That is, regardless of the frequency of sales, attention must be focused on management's intent, supported by appropriate evidence, and objectives must be distinguished to generate contractual cash flows, with amortized cost being the best criteria even if sales occur before maturity, since the bank's assets are financed by its liabilities (such as deposits) sales before maturity are sometimes inevitable. In addition, the reason for selling may be in compliance with internal risk management, which aims to identify risks early. Therefore, the presentation was mainly based on the text of the standard (IFRS9), the instructions of financial institutions and the studies of the four major accounting firms (Deloitte, KPMG, PwC, EY).

2.1 IFRS 9: Objectives, Replacement of (IAS 39) and Contents

This section underlines the (IFRS 9) vis-à-visthe entities that will be applied of it, the reasons behind replacing (IAS 39), the point of view of the president of the (IASB), the effect of (IFRS 9) on the provisions for expected credit losses in the balance sheet of banks and its contents. In light of the scarcity of studies and researches concerning the (IFRS 9), the current study will depend upon the original text of (IFRS 9) "Financial Instructions" of financial institutions and the studies of Big 4 (Ernst and Young, KPMG, Grand Thornton and PwC). For Volarevic and Varovic (2018), the (IFRS 9) "standard has been specifically introduced to financial institutions as well as to commercial entities that have significant financial assets and liabilities on their balance sheet".

The (IFRS 9) standard aims to achieve a state of compatibility and/or harmonization between the management of risk activities and accounting treatments. The philosophy of the (IFRS 9) is based on a prior expectation of the future, as it works to avoid facing sudden future losses that entities were previously suffering from with (IAS 39).

The reasons behind replacing (IAS 39) standard with the (IFRS 9) are very essential to be highlighted. The (IAS 39) standard was late in the process of recording credit losses related to loans and other financial instruments. The philosophy of the (IAS 39) is based on the actual loss model. Hence, the (IAS 39) was reactive, i.e., the entity takes the necessary actions when a problem occurs (e.g., when the customer fails to pay completely). Thus, Simth (2010) claims that "Various international bodies have asserted that the incurred loss model led to delays and insufficient recognition of credit losses for banks and thus directly contributed to the 2008 financial crisis".

The financial crisis had an impact on international financial reporting standards. The International Accounting Standards Board (IASB) prepared a new

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Vol. 24, July 2023
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standard for financial instruments. The replacement changes the view to ac- counting data in financial statements and changes the view to data in organizations, especially banks, and financial institutions. Historical prices are replaced with expectation in the future, which is not anymore, a decision of the managers but has its basis on business operations.

Remarkably, the IASB President Hogoforst (2018) argues that (IAS 39) is not the root of the problem: "the blame was not due to the incurred loss model of IFRS39 but rather circumstances that have enabled banks to defer recognition of inevitable loan losses for too long, so the IASB has done what they wanted G20".

In the accompanying press release Hans Hoogervors, chairman of the International Accounting Standards Board (IASB), stressed that 'the new standard will enhance investor confidence in banks' balance sheets and the financial system as a whole' (International Financial Reporting Standards (IFRS), 2014).

The effects of (IFRS 9) are very extensive. According to Ernst & Young, (2018) "IFRS9" requires entities to recognize a loss allowance equal to 12-month expected credit losses for those financial instruments that have not yet experienced a major increase in credit risk since initial recognition, and to establish a provision for expected credit losses on lifetime once there is a significant increase in credit risk. Other effects of (IFRS 9) are conceived by Groff and Morec (2021) as "the expected credit loss model has been designed to allow for timely recognition of expected credit losses, not only on the basis of actual credit loss experience but on proactive information regarding the existing loan portfolio". Besides, Halilbegovic et al. (2019) argue that "the implementation of the new impairment requirements should lead to an increase in provisions for credit losses for many banks and financial institutions as well as to distinguish between financial instruments that have significantly deteriorated in credit quality and those that have not yet".

Ultimately, the contents of the (IFRS 9) standard are different from the (IAS 39). Based on a report issued by Ernst and Young (2018), "The new standard includes three stages for financial instrument projects: classification and measurement, impairment, and hedge accounting. While the scope, recognition and derecognition paragraph has been carried forward as it is".

2.2 Classification and Measurement of Financial Assets

Groff and Morec (2021) According to the new standard, classification (and consequently measurement) of a particular financial instrument is based on both business model (i.e. the way a bank manages a group of financial assets to achieve its business goals) and cash flow characteristics (i.e. the outcome of the contractual cash flow or Solely Payments of Principal and Interest (SPPI) test)

2.2.1 Classification of Financial Assets

2.2.1.1 First Classification Amortized Cost Model

This type is held to collection form, such as loans and bonds. The aim of the model is derived from its name, that is to say, is to collect the cash flows stipulated in the contract of the financial instrument that will be held to maturity. This model provides the entity the right to collect the amounts of future cash payments and their interest on the dates specified by the instrument contract in addition to recovering the principal amount at the end of the contract. The entity's desire to sell this model does not conflict with the objective of the model (i.e., Held to collection), because the lack of liquidity to an emergency situation or to the credit risk surrounding the financial instrument may be a reason to sell the instrument. At the same time, the sales process will not be left open but it must be reviewed regularly and making sure it is held for the purpose of collecting clash flows.

2.2.1.2 Second Classification: Fair Value Through Profit and Loss Model (FVTPL)

This model is intended for the purpose of trading i.e., selling in the short term. In addition, there is a condition in the model, which shows that the instrument does not generate any future cash payments. Examples include stocks and bonds.

2.2.1.3 Third Classification: Fair Value Through Other Comprehensive Income Model

This model is intended for the purposes of collection and sale. Examples include investment in bonds held to maturity or selling and investment in shares not for trading purposes, but those that are held for the long term and then sold, knowing that these assets within this classification are not subject to impairment tests.

Based on the above-mentioned classifications, the classifications stated by (IAS 39) have been cancelled, and it has been found that stocks can be classified in the three categories, meaning that they can be used as a cash flow generation tool, a trading tool, and a long-term held tool for the purpose of selling. The stocks are not subject to a decline test. As for the bonds, they fall into the first and third categories, which mean that they are not for trading (speculation). Deposits falling into the first category because they are held to maturity.

2.3.1 Amortized Cost Model Measurement

The initial measurement of this model is at the fair value, and the direct cost (such as commissions and purchase expenses) is added to the value of the debt instrument. As for the subsequent measurement, it is at amortized cost with the amortization of the

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

purchase premium or discount using the effective interest rate method.

2.3.1.2 Measurement of the FVTPL Model

The initial measurement of this model is at fair value, but the direct cost (commissions and purchase expenses) is dealt with in the profit and loss account. As for the subsequent measurement, as well as at fair value, with any change in its value charged to the account of unrealized gain or loss.

2.3.1.4 Measurement of the Fair Value Through Other Comprehensive Income Model

With regard to equity instruments, the initial measurement is at fair value, with a change in its value (valuation differences in shares or financial assets valuation reserve) recorded as retained earnings and shown in equity within other comprehensive income items as a separate item. It is not allowed to transfer them to the profit and loss account when derecognizing these assets by sale or otherwise. As for the subsequent measurement, the profits from the sale of the realized financial assets (shares) go within the other comprehensive income and in a reserve account to evaluate the assets (retained earnings), as for the income from dividends (shares) within the profits and losses.

As for debt instruments, the initial measurement are at fair value and the direct cost of the transaction (commissions and purchase expenses) is added to the value of the debt instruments. As for the subsequent measurement at fair value with proof of the change in its value (cumulative change in fair value) and showing it in equity and within other comprehensive income items as a separate item until the asset is disposed of by sale or assignment, where it is transferred to the income statement under the name of reclassification adjustments. Interest income, currency differences, impairment losses, and impairment recovery gains (bonds) are included in profits and losses.

2.4 Reclassification of Financial Assets

When an entity changes its business model for a financial asset instrument (acquisition, disposal, termination of business lines), it must reclassify the affected assets with compliance with both, applying the reclassification with a future effect from the date of reclassification, and not adjusting any gains or losses, including impairment gains or losses, or previously recognized interest. It is worth noting that there are cases that are not considered changes in the business model, such as a change of intent relating to specific financial assets (even in the event of significant changes in market conditions or conditions), temporary disappearance of a specific market for financial assets, and the transfer or transfer of assets between parts of the enterprise. Which have different business models? As for the reclassification date, it is the first day of the first financial disclosure period after the change in the business model that results in the reclassification of financial assets.

2.5 Accounting for Asset Reclassifications: www.pwc.com/ifrs9

From	To	Requirement
Amortized Cost	FVPL	Measure fair value at reclassification date and recognize difference between fair value and Amortized Cost in profit and loss
FVPL	Amortized Cost	Fair value at the reclassification date becomes the new gross carrying amount
Amortized Cost	FVOCI	Measure fair value at reclassification date and recognize any difference in OCI
FVOCI	Amortized Cost	Cumulative gain or loss previously recognized in OCI is removed from equity and applied against the fair value of the financial asset at the reclassification date
FVPL	FVOCI	Asset continues to be measured at fair value but subsequent gains and losses are recognized in OCI rather than profit and loss
FVOCI	FVPL	Asset continues to be recognized at fair value and the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss

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Vol. 24, July 2023
ISSN: 2749-3628,

2.6 Classification and Measurement of Financial Liabilities

(IASB) received news that most of the current requirements for financial liabilities in (IAS39) worked adequately, and accordingly it was transferred without change, as those instruments held for the purpose of trading (Trading Security) (TS) are measured at fair value through profit or Loss and balance at amortized cost.

However, in a major change for those financial liabilities designated at fair value through profit or loss, IFRS9 introduces a requirement for most changes in fair value relating to the entity's credit risk to be recorded in other comprehensive income and not profit or loss. This change was made to remove the counter-intuitive effect of the creditworthiness of the entity resulting in the gain being recognized in profit or loss for those obligations.

As mentioned above, the concept of implicit derivatives of financial liabilities and non-financial assets has been retained. This means, for example, that some structured debt instruments will continue to account as amortized cost adding contracts with embedded derivatives that are separable, rather than requiring that the entire debt instrument be measured at fair value (as would be the case if their embedded derivatives were omitted and the instrument was valued). As a single unit of account).

Finance lease receivables (i.e., net investments in finance leases) and operating leases under IAS 17 and IFRS 16.

3. IMPAIRMENT

IFRS 9 includes a single impairment model for all financial assets, but only for those classified as current or at fair value through other comprehensive income. As for financial assets classified as at fair value through profit or loss, they do not need to be impaired in this way because they are already "market rated" with the financial impact shown in profit and loss (KPMG, 2016).

IFRS 9 requires an entity to "recognize an allowance for expected credit losses for financial assets that are debt instruments such as loans, debt securities, bank balances, deposits, receivables, finance leases (i.e., net investments in finance leases), operating leases, and asset contracts. Under IFRS15, which is defined as the right of an entity to receive consideration for goods or services transferred by the entity to the customer" (Ernst & Youbg, 2018).

The impairment requirement under IAS 39 was based on the incurred loss model, i.e., credit losses are not recognized until a credit loss event has occurred. Because losses are rarely incurred evenly over the life of the loans, there has been a mismatch in the timing of recognizing the credit spread inherent in the interest charged on the loans over the life of the loans and any impairment losses, which are only recognized at a later date. Determined by different entities using different approaches to calculating the decline (Ernst & Young, 2018).

Halilbegovic, et al. (2019) (IFRS9) introduced new rules for impairment in order to respond to the request made by the Group of Twenty, investors, regulators and hedging experts to improve the accounting requirements for a financial instrument. The expected credit loss model applies to debt instruments (bonds) recorded at amortized cost or at fair value through other comprehensive income, such as loans and Debt Clubs, Debtors, Lease Debtors, Most Loan Obligations, and Financial Guarantee Contracts".

Ernst & Young, (2018) IFRS9 defines "credit loss as the difference between all contractual cash flows due to an entity in accordance with the contract and all cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate, so a financial asset is credit weak when the occurrence of one or more events that have a detrimental effect on the estimated future cash flows of that financial asset".

Ernst & Young,(2018) (IFRS9) has replaced the (Incurred Losses) model used in the (IAS39) standard "for calculating the impairment in financial assets to the future-looking (expected credit losses) model, which requires the use of estimates and judgments substantially to estimate the economic factors that have an impact on the impairment value according to For the new model, so that this model is normalized on all financial assets - debt instruments classified at amortized cost or at fair value through the statement of comprehensive income". In addition, they say that "All entities …. (Instead of remembrance Ernst & young).

Ernst & Young (2018) "All entities are required to recognize a provision for expected credit losses for a period of 12 months or for life, depending on whether there has been a significant increase in credit risk since the initial recognition. According to (IFRS9), the impairment loss is calculated before the default of the financial instrument as it is classified in three stages. According to the degree of risk related to each financial instrument, the expected impairment losses are calculated for each stage by calculating the probability of default, taking into account the actual and expected macroeconomic factors in addition to the

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

time and market value of any cash insurances related to the financial instrument".

In financial institutions, credit and financing risk management systems and processes must be well interconnected, because matching risk and accounting in the new paradigm is essential. Risk models and statements should be used more widely to make the required assessments and calculations for accounting purposes, which is a major change from IAS 39 and a major challenge. Focusing on expected losses may result in higher fluctuations in the amounts of expected credit losses charged to profit or loss, especially for financial institutions. The level of loss provisions will increase as economic conditions are expected to deteriorate and decrease as economic conditions are expected to become more favorable. This may be compounded by a significant increase in the loss allowance when the financial instruments move between 12month ECL and life and vice versa. Wherever it is the need to consider the impact of multiple macroeconomic scenarios (see 4.6 below) may help reduce volatility, depending on conditions.

3.1 What's the Different of Impairment Recognition Under IFRS 9?

Effective for annual periods beginning on or after 1 January 2018, IFRS 9 sets out how an entity should classify and measure financial assets and financial liabilities. Its scope includes the recognition of impairment. In the standard that preceded IFRS 9, the "incurred loss" framework required banks to recognise credit losses only when evidence of a loss was apparent. Under IFRS 9's ECL impairment framework, however, banks are required to recognise ECLs at all times, taking into account past events, current conditions and forecast information, and to update the amount of ECLs recognised at each reporting date to reflect changes in an asset's credit risk. It is a more forward-looking approach than its predecessor and will result in more timely recognition of credit losses.

3.2 Methods of Impairment

There are three methods for calculating impairment that differ from each other in the basis of measurement of the expected loss allowance

3.2.1 General Approach

Under the general method, at each reporting date, "the entity recognizes a loss allowance based on 12-month ECL or lifetime ECL depending on whether there has been a significant increase in credit risk on the financial instrument since the first recognition, and the loss allowance balance It is recognized in profit or loss as impairment gain or loss" (Ernst & Young, 2018).

3.2.2 Simplified Approach

The simplified approach does not require the entity to track changes in credit risk, but instead requires the entity to recognize a loss allowance based on lifetime ECL at each reporting date. It applies to all trade receivables or contract assets resulting from transactions within the scope of IFRS15 that contain a financing component.

3.2.3 Credit Adjusted Approach

For financial assets that have been purchased or created with a low credit value, a credit impaired financial asset may be purchased because it has already met the criteria. It is likely that such an asset will be acquired at a significant discount. However, this does not mean that the entity is required to apply the revised effective interest rate to the financial asset only because the financial asset has high credit risk on initial recognition, if it has not yet met these criteria. It may also be possible for the entity to create a credit-impaired financial asset, for example, after a substantial modification of a distressed financial asset resulted in the derecognition of the original financial asset. Trade receivables can also be sold to the factoring bank, where all the risks and rewards are transferred to the bank. Thus, the trade receivable is derecognised by the transferring entity and recognized by the factoring bank that obtains the right to receive the payments made by the debtor for the amount invoiced (Ernst & Young, 2018).

In such a case, we believe that the trade receivable "Calculated in Factors" is outside the scope of the simplified approach for the purpose of the factoring bank applying the ECL model, because the simplified approach is limited to trade receivables that result from transactions within the scope of IFRS, i.e., based on a contract for the acquisition of goods or services. This is not the case for the factoring bank because it has obtained the trade receivable through the factoring agreement. Furthermore, the simplified approach has been introduced to help entities that have systems A less complex approach to credit risk management Factoring banks are likely to have more sophisticated credit risk management systems.

4. Stages of Impairment

There are three main stages of the accounting standards IFRS 9 of impairment process, by which the deterioration of financial instruments described over time:

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

- **Stage 1:** When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs). In determining whether a significant increase in credit risk has occurred since initial recognition, a bank is to assess the change, if any, in the risk of default over the expected life of the loan (that is, the change in the probability of default, as opposed to the amount of ECLs).
- **Stage 2:** If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognised. The calculation of interest revenue is the same as for Stage 1.
- **Stage 3:** If the loan's credit risk increases to the point where it is considered credit impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

Twelve-month versus lifetime expected credit losses, ECLs reflect management's expectations of shortfalls in the collection of contractual cash flows. Twelve-month ECL is the portion of lifetime ECLs associated with the possibility of a loan defaulting in the next 12 months. It is not the expected cash shortfalls over the next 12 months but the effect of the entire credit loss on a loan over its lifetime, weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on loans that are forecast to actually default in the next 12 months. If an entity can identify such loans or a portfolio of such loans that are expected to have increased significantly in credit risk since initial recognition, lifetime ECLs are recognised. Lifetime ECLs are an expected present value measure of losses that arise if a borrower defaults on its obligation throughout the life of the loan. They are the weighted average credit losses with the probability of default as the weight. Because ECLs also factor in the timing of payments, a credit loss (or cash shortfall) arises even if the bank expects to be paid in full but later than when contractually due.

4.1 Impairment Phases

According to (IAS39), there were different models for the impairment of financial assets that were measured at amortized cost and financial assets for sale. As for (IFRS9), there is one model for impairment of all debt instruments measured at amortized cost and at fair value through other comprehensive income. Where the calculation of the allowance for expected credit losses depends on the extent of credit deterioration since the initial verification, and as a general approach, it includes two measurement rules, the first applies to all items as long as there is no significant deterioration in the credit risk related to the expected credit losses for a period of 12 months, which is the first stage, the second rule It is the expected credit losses over the life i.e. the second and third stages, which apply when there is a significant increase in credit risk.

4.1.1 Phase I: weak deterioration

Under which the probability of default is estimated for 12 months, in the case of issuing a loan, it is in the first stage that does not require the condition of a credit event (or "catalyst" for impairment) before credit losses are recognized as stipulated in (IAS39). Upon creation, the provision for expected credit losses is recognized for a period of 12 months, which is called the initial recognition stage. As for the recording of losses, the retained earnings account is debited by the amount of the provision, and the capital account is affected (ownership decreases), while the credit side is the account of the depreciation of the loan value, so the value of the assets will decrease. At the end of the year, the depreciation expense account is debited, and the profit and loss account and the credit side account for the depreciation of the loan are affected. As for the income of investment-grade securities, the interest income is calculated on the total book value.

4.1.2 Phase II: Significant deterioration

At this stage, expected credit losses are calculated on financial instruments that are more than (12) months old. In the second year, if the financial instrument remains in the first stage, we again calculate the expected credit losses for the instrument for a period of (12) months for the second year only, considering the first year the provision has been calculated and so on until the maturity of the financial instrument. But if the financial instrument moves from the first stage to the second stage, then the expected credit losses are calculated for the entire life of the financial instrument. If the tool is five years old, for example, we calculate the expected credit losses for three years, because we have previously calculated the provision for expected losses for the first and second years. We can liken this stage as looking into the future, which surrounds the amount that was loaned to the customer with a larger telescope than the user in the first stage, because we must look at the expected impairment losses over the life of the financial asset (the loan) when the credit

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

risk increases significantly, and therefore it is called debt under control. The interest income is calculated on the total book value.

It is worth noting that this stage is considered very difficult to predict the probability of default (credit risk), due to the high degree of uncertainty, the life of the loan may be 3 years or 5 years, and it may be 30 years, as in the case of a mortgage loan and mortgage payable for this The reason is at this stage to review the economic factors at the macro level and the industry sector (the banking sector in our example above), the uncertainty it is exposed to, the geographical risk and a reassessment of the risk surrounding the loan in general. Accordingly, it is reasonable to expect that the new impairment requirements of IFRS9 will result in increased provisions for credit loss for many banks and financial institutions.

4.1.3 Phase III Credit Impaired

Low-value assets with significant credit risk (high counterparty probability of default, objective evidence of impairment in place). It is called the defaulting stage, and it is the last stage of the credit rating according to (IFRS9), where the expected credit losses are calculated after the customer exceeds the first and second stages, meaning we have low-value assets with significant credit risks (high probability of default for the counterparty). Here the customer becomes in the third stage and is called an inactive customer. At this stage, we have to look at the uncertainty surrounding the amount and timing of future cash flows, the available real data, which is what actually happened in the past, that is, the past loan years, and estimated information about the upcoming periods of the years of the financial asset. Interest income is calculated on the net book value (total adjusted for impairment losses). There are indicators that can be inferred about the customer's transition between the stages, such as the inability of the borrower customer to meet the payment of the due instalments, the customer's request to reschedule his debts, the high probability of the customer or issuer of the instrument going bankrupt, and the absence of an active market for the financial instrument.

5. HEDGE ACCOUNTING

In developing a new model, the IASB comprehensively reviewed the hedge accounting requirements of IAS 39. IAS 39 had long been criticized as being too rules-based and viewed by many as unnecessarily preventing hedge accounting from being applied in reasonable circumstances. This has led to more volatility in profit or loss from risk management activities. In overhauling the hedge accounting requirements, the IASB chose to deal with portfolio (or "macro") hedge accounting of open portfolios separately from general hedge accounting. The idea behind this was to first set the principles of a general hedge accounting model before considering how this might apply for a macro hedging.

In December 2010, the IASB published the Exposure Draft ED/2010/13 Hedge Accounting (the 'ED') proposing a new general hedge accounting model. That ED contained an objective to align hedge accounting more closely with risk management. To meet this objective the ED proposed to increase the scope of eligible hedged items and hedging instruments. It proposed an objective based hedge effectiveness assessment starkly different to IAS 39's 80-125 per cent hedge effectiveness threshold. To accompany these changes to eligibility and qualification, it also proposed changes to the mechanics of cash flow and fair value hedge accounting, as well as revised hedge accounting presentation and disclosure requirements.

The ED was well received in many respects since it addressed many concerns relating to hedge accounting restrictions in IAS 39. The IASB also received feedback on areas where the proposed new requirements were not well understood, overly complex or contained restrictions on the application of hedge accounting that constituents did not agree with. This resulted in changes that were included in the IASB's review draft of its proposals that were posted on the IASB's website in September 2012.

The IASB received comments on its review draft which lead to further changes, the most significant of which introduced an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39. This policy choice was introduced to alleviate concerns that the proposed general hedge accounting model could not accommodate macro cash flow hedging of interest rate risk in the same way as IAS 39. Also, since the macro hedge accounting project is not yet complete, some preparers did not want to change their hedge accounting processes twice (i.e. once to accommodate the general hedge accounting model and then again to accommodate the macro hedge accounting model).

Entities face a variety of risks, including operational and financing, due to the uncertainty that accompanies the implementation of their activities, such as market risk represented by continuous price hikes, credit risk as the possibility of the other party not fulfilling its obligations towards the entity, and the

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

high cost of capital such as high interest rates, and exchange rate fluctuations. For currencies, the sum of these risks will negatively affect the dates and amounts of future cash flows. Therefore, the entities, through financial hedging, strive to reduce the uncertainty caused by these risks, using "derivative financial instruments, and for simplification, they are called derivatives, which are useful financial tools for managing the risks facing entities" (Kesio's, et al. 2020). As for the provisions and legislation of these derivatives, they have taken care of them. Both professional organizations that represent the private sector and governments alike, by simplifying the procedures for their measurement, registration and disclosure by issuing accounting standards that govern their accounting.

PerČevich (2022) defines hedge accounting as "a special accounting technique that enables the effects of an entity's business risk management activities to be recognized in the associated financial statements in the period in which the risk occurs and affects profit, loss or other comprehensive income".

6. CONCLUSION

The International Accounting Standards 39, in 2000s, rules and requirements adopted by the International Accounting Standards Board have received, during the subsequent years, several criticisms that became, then, weaknesses of IAS 39. ranging from these weaknesses, the IAS Board tried to switch and to change, as possible, several parts of the accounting standards IAS 39 until it decided to collaborate with the ecu Commission for creating a new set of accounting standards. This new document focusses its attention within the replacement of IAS 39: in fact, the aim is to replace in full the standards no. 39 associated with the recognition and the measurement of financial instruments. Through this replacement, the International Accounting Standards Board has decided to intervene, to enhance and to simplify, as possible, the rules, the disciplines and therefore the requirements that regularize the disclosure of financial instruments. International Accounting Standards Board has based its works and tasks during a specific work line: simplification. In fact, the IAS Board wants to form a new set of accounting standards more understandable and more manageable: consequently, the IAS Board and therefore the European Commission have created the exposure draft of new accounting standards, referred to as International Financial Reporting Standards 9. This document has allowed investors, auditors and analysts to know easily the financial situation of entities, financial institutions and banks and it's allowed to users of financial statements to use more manageable the new accounting standards.

One of the critical points of the accounting standards IAS 39 is recognized in all its complexity to interpret and to apply the rules. thanks to this complexity, over time, the accounting standards no. 39 are modified and changed several times in order to be linear with the primary goal of the IAS Board: to make them simpler, easier to know and to read, as possible. furthermore, these characteristics, it's been necessary to adapt the accounting policies to the financial crisis that has affected and continues to affect the financial markets all over the word, since 2008. the arrival of financial crisis has led the IAS Board to review several rules in the various accounting documents, including IAS 39The complexities that are encountered in the reading and the application of the accounting standards IAS 39 are related to the multiple categories of classification and measurement of financial assets and financial liabilities, the difficulty in the application of the prescribed rules relating to the financial instruments, the related phases of derecognition and elimination of monetary instruments and finally the difficulty in the application of hedge accounting rules.

Adding on these complexities, the International Accounting Standards 39 are considered by analysts, auditors and market agents together of the main levers which has amplified the effects of the financial crisis and the consequent contagion of financial markets around the world. a number of the main reasons is, of course, the many uses and application of fair value measurement and the optimal vision and representation of the various sections of financial statements before the advent of 2008 financial crisis. so as to adjust, as possible, this example, it had been necessary the intervention of International Accounting Standards Board and other organizations to improve, as already mentioned before, the accounting standards for having a far better classification and measurement of financial instruments. The International Accounting Standards Board has published the accounting document that contains the new set of accounting standards relative to the classification, the measurement and therefore the evaluation of financial instruments. These accounting standards are referred to as International Financial Reporting Standards 9 (IFRS 9). The Board has decided to structure the accounting standards IFRS 9 because the structure of accounting standards IAS 39 that are divided in three sections:

– Section 1: classification and measurement of monetary assets and financial liabilities. The IAS Board

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

has published, firstly, a discussion document "Reducing complexity in reporting financial instruments" associated with the reduction of complexities that have been found in this phase from auditors and analysts. This phase is critical and important for financial instruments because it is the first phase to apply for having a correct analysis of financial instruments. The Board has tried to research and to solve, as possible, the issues related to the classification and the evaluation of financial instruments by creating correct classification categories and responsive evaluation methods necessary to evaluate and to measure financial instruments. Through this analysis and financial control, the Board has, subsequently, published an exposure draft referred to as "Classification and Measurement of Financial Instruments" in which the Board manages the reduction of complexities that have been found and associated in the accounting standards no. 39. the most changes are the following:

a. the Board has reduced the amount of classification categories and specified the measurement methods of financial assets and financial liabilities in order to avoid the incorrect allocation and measurement.

b. the accounting standards established from IAS Board in IFRS 9 pass from rule- based to principle-based.

Moving to the impairment methodology applied for evaluating the financial assets and financial liabilities. the arrival of 2008 banking financial crisis has conducted many banks and financial institutions to recognize later possible losses in their financial assets or credits in terms of value. during this way, the International Accounting Standards Board has decided to switch the accounting methods and consequently the impairment process necessary to evaluate the credit risk of financial instruments. the necessity to recognize credit losses, thanks to the financial crisis, has conducted the IAS Board to pass from an impairment methodology supported the recognition of incurred credit losses to an impairment methodology based on the recognition of expected credit losses. This method allows banks and financial institutions to acknowledge promptly the credit risk that implies the expected credit losses by using future information and data. Firstly, this modification of impairment method and various changes have suffered several critics and disappointments from analysts and auditors but after having overhauled the documents relative to the present section, the International Accounting Standards Board has published the optimal exposure draft relative to the impairment methodology that states three main stages necessary to live the impairment amount:

a. If the impairment amount hasn't registered variations from the initial recognition, the quantity is recognized in the 12-months expected credit losses.

b. When, within the impairment process, the bank or the financial organization recognizes a significant increase of credit risk that brings to expected credit losses, the impairment amount is recognized within the lifetime expected credit losses. As already mentioned, this method allows to acknowledge promptly the expected credit losses and possible variations of credit risk related the financial instruments in their lifetime. The IAS Board has also associated the default risk to the credit risk that helps the recognition beforehand.

-The hedge accounting that's a procedure used by banks or financial institutions that represents, as mentioned within the draft of IFRS 9, "[...] the effect of risk management activities adopted by the entities. These activities use financial instruments so as to manage exposures that derive from specific risks that could affect profit or loss in the financial statements." This means that hedging operations are operations adopted to neutralize, as possible, credit losses or losses in terms useful that have been recognized in a specific financial instrument or a group of financial instruments with a particular risk. main hedging accounting methods:

The International Accounting Standards Board has individuated and adopted three

a. fair value hedge that's a hedge method whose purpose is to resist to possible variations of hedged financial assets and financial liabilities in terms of fair value;

b. income hedge that is another hedge method whose purpose is to resist to the variations between expected contractual cash flows and initial contractual cash flow; c. hedges of a net investment during a foreign operation.

As mentioned within the previous chapters, after having changed different times the official publication and introduction of International Financial Reporting Standards 9 with the replacement of International Accounting Standards 39, the International Accounting Standards Board with the collaboration of European Commission and IFRS Foundation has fixed the official date which will be on January 1, 2018.

Banks and financial institutions have begun the implementation phase of the new accounting standards IFRS 9 within the three main sections. During the implementation, banks and financial institutions have verified and noticed several problems

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 24, July 2023
ISSN: 2749-3628,

thanks to the continuous difficulties in the application of accounting standards in financial statements. But after hard works and teamwork among analysts and auditors, the accounting standards IFRS 9 are considered as a model necessary to enhance the structure of business model and to align the risk management activities in order to neutralize, as possible, the danger of losses in terms of profit and loss or of value. As mentioned within the explanation of the three sections, banks and financial institutions will classify financial assets in three categories (held to gather, held to gather and sell, trading and other instruments) at the initial recognition and can be not subjected to modifications. The impairment procedure and calculation are going to be applied to financial instruments that have been classified on "held to collect category" or "held to collect and to sell category". Banks and financial institutions have, also, to define better their risk management activities and structures so as to have a better and correct hedge procedure necessary to contrast, as possible, credit losses or losses in profit/loss section of monetary statements or losses in terms of value.

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