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Financial Reporting Update 2016



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17 November 2016



AASB 9 – Early adoption

Negative interest rates

Derivative Pricing – XVA, OIS discounting

AASB 16 Leasing

AASB 9

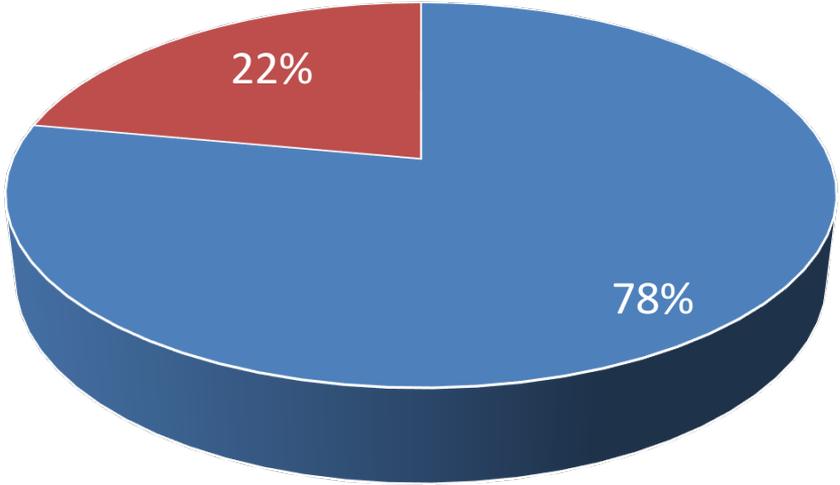
Quick recap

- Classification and Measurement
- Impairment
- Hedge Accounting
- Disclosures

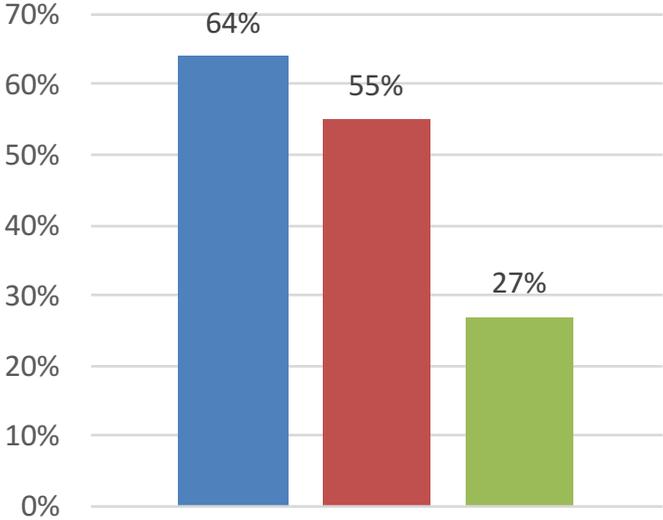
Effective date – on or after 1 Jan 2018

- can apply IAS 39 hedge accounting beyond this date indefinitely (or until IASB says so!)
- However, must prepare updated hedge accounting disclosures

Early adoption AASB 9 - ASX 200



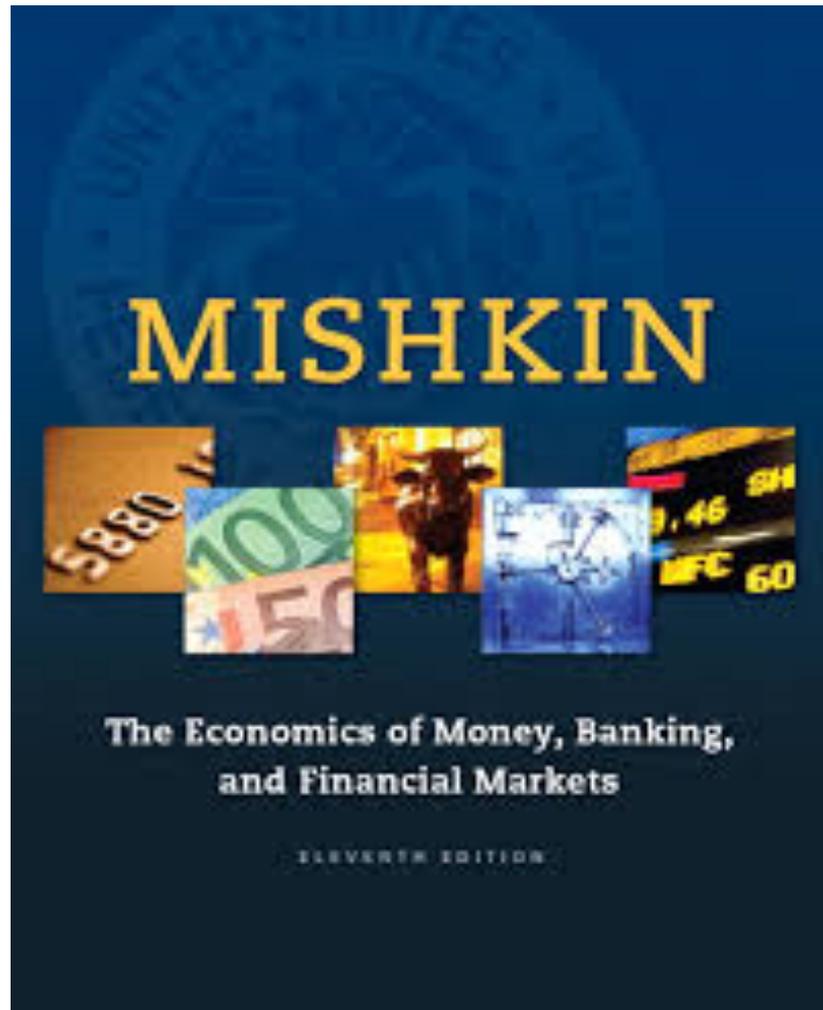
■ AASB 139 ■ AASB 9



Drivers of AASB 9 early adoption

■ CCIRS ■ Options ■ Commodities

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- Negative interest rates weren't supposed to happen...right?
- Many agreements do not cater for rates going below zero
- Therefore there are implications for hedge effectiveness, as below zero, there is no offset



Loan benchmark	Loan Margin	Receive leg - swap	Pay leg - swap	Total Interest
<i>Period 1</i>				
+100bps (EURIBOR)	+150bps	-100bps	+120bps	+270bps
<i>Period 2</i>				
+75bps	+150bps	-75bps	+120bps	+270bps
<i>Period 3</i>				
+25bps	+150bps	-25bps	+120bps	+270bps
<i>Period 4</i>				
-50bps (zero)	+150bps	+50bps	+120bps	+320bps

Derivative pricing – XVA, OIS

- Just when we thought we had nailed CVA/DVA....
- FVA, CollVA, MVA, KVA....
- Some banks are including FVA in their MTM reporting to clients!
- OIS discounting for collateralised trades has arrived

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What's holding this thing up?



A Balance Sheet !!



Leasing – IFRS 16

After 30 long years.....all leases to be treated equal...on a balance sheet

Effective date on or after 1 Jan 2019



Key matters – IFRS 16

- Old battleground – *operating lease or finance lease?*
- New battleground – *is it a lease at all?!*
- Other matters
 - *Short term leases and low value items can be excluded*
 - *Lease terms cover options to extend/terminate, if reasonably certain*

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Is it a lease?





Dr Right-of-use asset

Cr Current lease liability

Cr Non-current lease liability

Dr Lease liability – principal

Dr Interest expense

Cr Cash

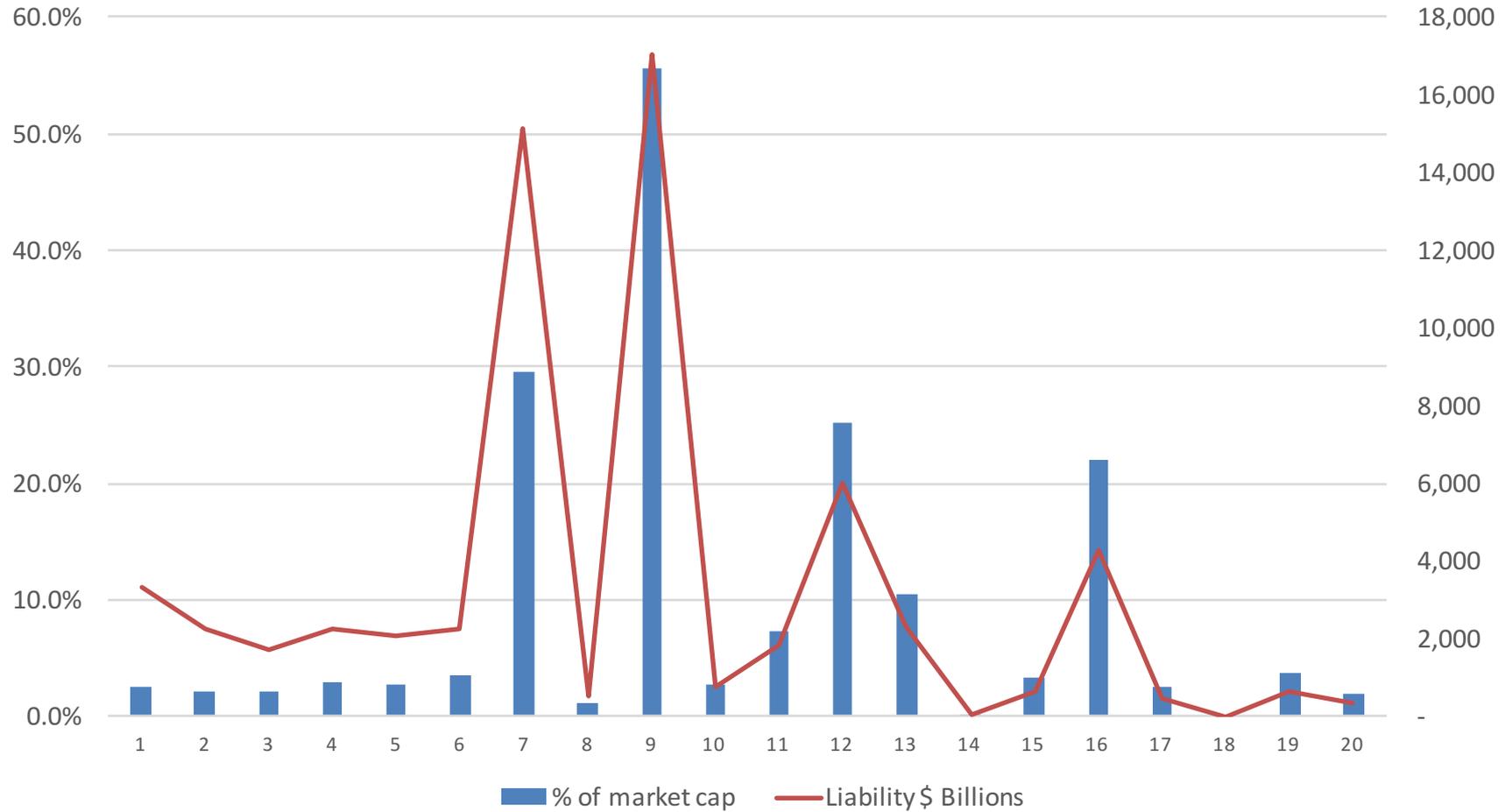


- Will potentially impact debt covenants and ratings assessments
 - S&P will use IFRS 16 numbers
- EBITDA improves under IFRS 16
- Regulatory Capital and Liquidity implications for banks



- ASX 20 balance sheets - likely impact
 - Some scary highlights!
 - More than \$60billion in additional lease liabilities
 - Yes that's BILLION
 - \$10 billion current liabilities
 - On average, the liability is over 4% of market cap
 - Highest is 55% !!

Impact of AASB 16 on balance sheets





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