

An-Najah National University

Faculty of Graduate Studies

**The impact of the adoption of IFRS 9 on the related
financial statements of the banks operate in Palestine
and Jordan**

By

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**This Thesis is Submitted in Partial Fulfillment of the Requirements for
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Signature



Dedication

This thesis is present to my sister's soul, may God has mercy on her

To my parents, my wife and my children

For their unlimited love and continued encouragement

To my brothers and sisters for continued encouragement

To my teachers who supported me

To my friends for their support

To all whom I loved

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In the beginning, I thank God who helps me to achieve my studies and to get the Master's degree

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I am also thankful to all doctors in accounting departments at An-Najah National University for their continuous support

At the end, my parents, my wife, my children, my family

Without all of you, this dream will never become true!!

الإقرار

انا الموقع أدناه، مقدم الرسالة التي تحمل العنوان:

The impact of the adoption of IFRS 9 on the related financial statements of the banks operate in Palestine and Jordan

أقر بأن ما اشتملت عليه هذه الرسالة انما هو نتاج جهدي الخاص. باستثناء ما تمت الاشارة اليه
حيثما ورد، وأن هذه الرسالة ككل أو جزء منها لم يقدم من قبل لنيل أية درجة علمية أو بحث علمي
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Declaration

This work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree qualification

Student Name:

اسم الطالب:

Signature:

التوقيع:

Date:

التاريخ:

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List of Abbreviations

AC	Amortized Cost
AFS	Available For Sale
AOCI	Accumulated Other Comprehensive Income
SFP	Statement of Financial Position
BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
CECL	Current Expected Credit Loss
CTE1	Common Equity Tier-1
EAD	Exposure At Default
ECL	Expected Credit Loss
EIM	Effective Interest Method
FASB	Financial Accounting Standard Board
FSB	Financial Stability Board
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
GP	General provision
HFT	Held For Trading
HTM	Held To Maturity
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standard
IRB	Internal Rating Based
IT	Information Technology
JCB	Central bank of Jordan
KPIs	Key Performance Indicators
L&R	Loans and Receivables
LGD	Loss Given Default
OCI	Other Comprehensive Income
PD	Probability of Default
PMA	Palestine Monetary Authority
RR	Recovery Rate
RWA	Risk weighted assets
SP	Specific provision
SPPI	Solely Payments of Principal and Interest
UKCGC	United Kingdom Corporate Governance Code

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Abstract

Following the global financial crisis, a lot of criticism has raised against the accounting standard for financial instruments. For example, IAS 39 was criticized as the main cause of the global financial crisis, because it classifies financial instruments in a way that enables management to hide the real financial position of the holder. In addition, it creates provisions that is too little and too late. As a result, the IASB issued IFRS 9 to overcome that weakness.

IFRS 9 introduces a new method for **classification and measurement** of the financial instruments. The entity business model and cash flow characteristics of the financial instruments were used as a basis instead of management intent, as required by previous standards. The adoption of the new classifications model **affects comprehensive income and owners' equity statements**, since the treatment of financial instruments gain or loss and fair value evaluation differs if compared with how it treated under the previous standards.

Furthermore, IFRS 9 introduces a new impairment model to address any changes in the fair value of financial instruments, some times before it's

acutely occurs, which replaced the incurred loss model. Applying the new impairment model is expected to result in a huge change in the financial statements, as **higher provisions are possible** with the lifetime loss concept and the inclusion of forward-looking information in the assessment and measurement of ECL (BCBS, 2017).

The main objective of this thesis is to examine the impact of IFRS 9 adoption on the related financial statements of banks that operate in Palestine & Jordan. To achieve this objective, the researcher divided the objective of the thesis into the following sub-objectives:

First, examine the impact of applying phase II of IFRS 9 “classification and measurement” on comprehensive income and owners' equity statements of the banks that operating in Palestine and Jordan. The researcher collected data from the annual reports of the banks that were operated in Palestine (16 banks) and Jordan (15 banks) in the first year of implementing this phase (2011-2012). Using the Paired Sample test to address the impact of applying phase I of IFRS 9, the study observed that implementing phase I of IFRS 9 has no effect on comprehensive income or on owners' equity statements of the banks that operate in Palestine and Jordan.

Second, examine the expected effect of applying phase II of IFRS 9 “new impairment model” on the comprehensive income statement, specific provision (SP) and general provisions (GP) and capital adequacy ratio (CAR) of the banks that operate in Palestine and Jordan. The researcher

collected data from the banks that operate in Palestine (14 banks) and Jordan (24 banks) through a questionnaire. The One-Sample Binominal Test was used to investigate the expected effect of applying phase I of IFRS 9. The study observed that implementing phase II of IFRS 9 is expected to have a material effect on the comprehensive income statement, SP and GP and CAR of the banks that operate in Palestine and Jordan. However, the expected effect differs from bank to bank depending on the bank profile, capital level and financial instruments held by each bank.

Third, examine the difficulties associated with the implementing of IFRS 9 by the banks that operate in Palestine and Jordan. The researcher collected data from the banks that operate in Palestine (14 banks) and Jordan (24 banks) using a questioner. The One-Sample Test was used to address the difficulties of implementing IFRS 9. The study observed that implementing IFRS 9 has many difficulties in different areas, such as, implementing Business model, implementing solely payments of principal & interest basis, preparing information, determined significant increases in credit risk, collective assessment basis, applying the processes, systems, models, data collection and risk management practices, governance and internal controls, disclosures and the costs of implementing.

The results of the research provide early evidence on the impact of early adoption of IFRS 9 for a small sample of banks in emerging capital markets. As a result, the regulator may need to further analyse the effect of applying IFRS 9 to see the effect on bank's comprehensive income statement, SP and GP and CAR, and take corrective actions if needed, such

as, apply the transition period to reflect the effect from applying IFRS 9 on CAR according to BCBS (2017) recommendations. In addition, issue further instructions to assist banks to overcome the difficulties in implementing IFRS 9.

Chapter One

Introduction

Chapter One

Introduction

1.1 Introduction

At the end of 2008, the global financial crisis highlighted the deficiency of existing accounting standards for financial instruments (Miu & Ozdemir, 2016, p.3). Barth & Landsman (2010, p.1) mention that accounting standards for financial instruments; especially loan loss provisioning, asset securitizations and derivatives as the main source of the global financial crisis. Accounting standards that deal with financial instruments were criticized, for example, International Accounting Standard 39 “*Financial Instruments: Recognition and Measurement*” (IAS 39), as a main source of the global financial crisis.

The IAS 39 has been considered as insufficiently transparent for investors to assess properly the values and riskiness of companies' assets and liabilities (Barth & Landsman, 2010, p.1). Therefore, it played an important role in creating the global financial crisis. For example, the classification basis under IAS 39 enables managers to designate the financial instrument into a class that is favourable for recognizing gains and losses, but not according to real management intent (Knežević, Pavlović & Vukadinović, 2015, p. 23).

In addition, impairment losses under incurred loss model recorded only when it supported by objective evidence, which result in recording too little impairment provisions in late stages. As a result, provisioning under IAS

39, as practiced, often does not meet supervisory requirements from the perspective of credit risk review and capital adequacy assessment (IMF, 2014, p.3; BCBS, 2016).

As a result, many international sovereign authorities and international bodies (e.g. G20, Financial Stability Board (FSB), Basel committee on Banking supervision (BCBS), etc.) have identified that IAS 39 and related standards as a main source of the global financial crisis (Huian, 2012, p.28). The International Accounting Standard Board (IASB) was forced to introduce an accounting standard that have a forward looking in recognizing credit loss provision and take fair value measurement issue into consideration when classifying and measuring the financial instruments (BCBS, 2016, p.1). As a response, the IASB issued the International Financial Reporting Standard 9 “*financial Instruments*” (IFRS 9) to overcome the weakness in IAS 39.

The IASB issued the complete standard in July 2014. The standards issuance have divided into three phases. The first phase is related to the classification and the measurement of the financial instruments. The second phase is about the impairment model for financial instruments based on *expected credit losses* (ECL) model. Finally, the third phase focuses on hedge accounting.

Phase I: Classification and Measurement

The new method for classification and measurement depends on both: the entity business model and the cash flow characteristics of the financial instruments instead of management intent, which was applied under the previous standard. The financial instruments will be measured at *amortized cost* (AC), or *fair value* (either; Fair value through profit or loss (*FVTPL*), or fair value through other comprehensive income (*FVTOCI*)).

The adoption of the new classifications model will **affect (increase or decrease) the comprehensive income and owners' equity statements**, since the treatment of financial instruments gain or loss and fair value evaluation differs if compared with how it was treated under IAS 39. Furthermore, the large size and the importance of the financial assets and liabilities in the financial statements, especially in the bank's financial statement, are expect to be effected by applying the new method to classify and measure the banks' financial instruments.

Phase II: Impairment model

The new impairment model depends on the forward-looking impairment model to address any changes in the fair value of financial instruments, some times before it is acutely occurred, instead of incurred loss model, which records impairment loss only after the default had already occurred.

Applying phase II of IFRS 9 is expected to change the financial statements, specially the banks' financial statements. According to BCBS

(2016a, p.1), applying the new impairment model is expected to result in **higher provisions**, because of using the forward looking information in the ECL model.

Applying the new impairment model **will result in higher provisions in the banking sector** because the provisions under the old accounting provisioning model were made after the impairment test match (after the changes had occurred). For example, specific provisions (SP) for loan made only after the borrower cannot pay his commitment (BCBS, 2016, p.1). Moreover, provisions will have to be made for each financial instrument, such as, indirect (Off- Statement of Financial Position "Off-SFP") facilities, equity instruments ...etc. As a result, the new accounting provisioning models will **result in higher provisions in banking sectors, which will have negative effects on bank capital, and capital base.**

Phase III: Hedge Accounting

The entities have the option to continue applying IAS 39 - hedge accounting requirements instead of IFRS 9 – hedge accounting requirements.

Many researchers, regulatory bodies, standard setters, accounting organizations, bankers, etc. try to analyse the expected effect from applying IFRS 9 on company's financial statements, including banks' financial statements. In general, all of them agree that the effect of applying IFRS 9 will enhance the financial statements' ability to present fair value, especially in distress situations.

Many previous studies, such as Lopes & Rodrigues (2003), Detilleux & Naett (2005), Fifield, Finningham, Fox, Power, & Veneziani (2011), Jarolim & Oppinger (2012), Huian (2012), Girbina, Minu, Bunea, & Sacarin (2012), Onali & Ginesti (2015), Onali, Ginesti & Ballestra (2017) try to analyse the companies accounting practices for financial instruments and compare the companies' compliance with the measurement, recognition and disclosure requirements. However, they found that companies have a quite long way to go through in terms of accounting and disclosure of financial instruments activity, namely derivatives.

On the other hand, a few studies try to analyse the companies accounting practices for financial instruments and compare the company's compliance to the measurement, recognition and disclosure requirements for financial instruments according to IFRS 9. However, Al Hayek & Abu El Haija (2011) assess the Jordanian accountants' knowledge in IFRS 9 requirements, especially, classification and measurement, impairment model, hedge accounting, etc. They found that the Jordanian accountants have sufficient overall knowledge regarding IFRS 9 requirements.

Onali & Ginesti (2015) evaluate the market reaction to the IFRS 9 announcement. They found that IFRS 9 has a positive reaction from the market. The IFRS 9 will be beneficial to shareholders who have a weak rule. The investors expected that IFRS 9 would enhance and support the comparability between entities. In Onali, et al. (2017) study, they evaluate the market reaction IFRS 9 setting process. They found that IFRS 9 is affected by firm information quality and asymmetry.

According to Girbina, Minu, Bunea & Sacarin (2012), the use of IFRS, such as IFRS 9, as reporting standards would increase the firm's ability to collect capital. Also, it increases the comparability, reporting transparency, quality, better information for decision making, information disclosed, understanding of performance and risks.

Many large Norwegian banks expect IFRS 9 to have little or no impact. Until now, the effects from IFRS 9 implementation, have not yet fully observed in practice, and therefore present policy challenges. The implementation of IFRS 9 could change credit portfolio compositions and impact capital calculation approaches employed under Basel standards (Stefano, 2018).

This thesis aims to address the impact of the adoption of IFRS 9 on the related financial statements for banks that operate in Palestine & Jordan. For this reason, the researcher divided this study into two main parts. The first part focuses on the impact of applying phase I of IFRS 9 on comprehensive income and statement of changes in equity. The second part, focuses on the expected effects of applying phase II of IFRS 9 on the comprehensive income statement, SP and GP and CAR. In addition, the difficulties of implementing IFRS 9 requirements have explored using a questionnaire developed based on previous studies.

The remaining of this introductory chapter includes six sections. Section 1.2 discusses the research problem. Section 1.3 presents the research questions. Section 1.4 explains the importance of the study. Section 1.5

explains the objectives of the study and section 1.6 discusses the contribution of the study.

1.2 Problem Statement

According to Girbina, et *al.* (2012), International Monetary Fund (IMF) (2014), European Parliament (2015), Beerbaum & Piechocki (2013), the major change in International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS) regarding accounting for financial instruments since 1988 until now; was changing the methodology of accounting for financial instruments from **historical cost** to **fair value accounting; based on risk management concept**. IFRS 9 became based on the risk management concept (forward-looking) to address any changes in fair value of financial instruments.

IFRS 9 was the first accounting standard that merges accounting with risk management that took the expected effects of the future event into consideration. It depends on recording historical economic events using historical cost or fair value.

However, a lack of research addressing the effects of implementing IFRS 9 on financial statements in emerging economies exists, especially, the effects of implementing phase I of IFRS 9 on comprehensive income and equity statements and the effects of applying phase II of IFRS 9 on comprehensive income statement, SP and GP, CAR in such economies. In addition, there are insufficient researches addressing the difficulties of implementing the requirements of IFRS 9. Thus, this study addresses the

effects of the adoption of the IFRS 9 phases on the financial statements of the banks that operate in Palestine and Jordan and the difficulties of applying this standard from the perspectives of these banks.

1.3 Research Questions

Based on the above discussion; this study introduces three main research questions as the following:

- What is the impact of implementing phase I of IFRS 9 “*classification and measurement*” on comprehensive income and owners’ equity statements in the banks that operate in Palestine and Jordan?
- What are the expected effects of applying phase II of IFRS 9 “*new ECL model*” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan?
- What are the difficulties of implementing IFRS 9 requirements?

1.4 Importance of the study

According to Beerbaum & Piechocki (2013), modifications on accounting standards become clear to investors **only** when the new standards are first used for external reporting. From the previous discussion, applying phase I of IFRS 9 to measure and classify financial instruments will affect the company's financial statements. Also, applying phase II of IFRS 9 will result in higher provisions.

However, IFRS 9 is effective for external reporting since 1st January 2018 or after. However, the *Palestine Monetary Authority* (PMA) and *Central bank of Jordan* (JCB) enforced the banks to early implementation of phase I of IFRS 9 in 2011-2012 due to global improvement in accounting standards. Completing such a study provides an opportunity to determine the impact of implementing phase I of IFRS 9 before IFRS 9 became effective for external reporting.

In addition, banks were at the centre of the financial crisis and many international bodies (e.g. BCBS, central banks, etc.) expected that applying IFRS 9 would increase in impairment provisions, which in many cases will reduce the capital ratios of banks. Therefore, completing such a study provides an opportunity to determine the expected impact of implementing phase II of IFRS 9 on the comprehensive income statement, SP and GP and CAR.

As a result, the importance of this study comes from its purposes and expected results. It may assist to determine the effects of implementing phase I of IFRS 9 on the comprehensive income and equity statements in the banks that operate in Palestine and Jordan before the IFRS 9 became effective for external reporting. Moreover, the study is also important because it will try to determine the expected effects from applying phase II of IFRS 9, which will help the Palestinian and Jordanian authorities and banks to take corrective actions if needed, such as, a transition period to reflect the effect of implications on banks' capital.

1.5 Objectives of the study

Due to the large size, the importance of financial instruments in the institution's financial statements (especially in banks - which expected to be larger, affected by applying IFRS9), this study was conducted. The overall objective of the study is to try to identify the expected effect of implementing IFRS 9 before the standard became required for external reporting since 1st, January 2018; using the case of Palestine and Jordan were part of standard 9 are required since the end of 2011-2012.

1.6 Contributions of the Study

The lack of studies address the expected effect of applying IFRS 9, this study provides significant contributions to the existing financial instrument literature particularly in emerging economies such as Palestine and Jordan.

Specifically, the study addresses the impact of applying phase I of IFRS 9 on comprehensive income and owners' equity statements. In addition, the expected effects of applying phase II of IFRS 9 will result in higher provisions. Moreover, the difficulties of applying IFRS 9 are also addressed. The results of this study are of considerable importance for the regulators and other related parties in Palestine and other developing countries, which have similar regulations.

Chapter Two

Background & Literature Review

Chapter Two

Background & Literature Review

2.1 Introduction

This chapter aims to provide a clear view of accounting for financial instruments and how it is addressed in the accounting literature. The chapter structure is formatted in a manner that reflects the study objectives. It includes nine sections. The following section provides a brief history of accounting standards for financial instruments. The third section discusses the IAS 39 requirements. The fourth section discusses the IFRS 9 requirements and the major differences with IAS 39. The fifth section discusses the classification and measurement of financial instruments under IFRS 9. The sixth section discusses the expected impact of applying phase I of IFRS 9. The seventh section discusses the expected effect of applying phase II. The eighth section discusses the difficulties in implementing IFRS 9 by banks. The last section presents the research hypotheses.

2.2 History and background on accounting standards for financial instruments

The *International Accounting Standards Committee* (IASC), the predecessor body of the IASB, started its work on accounting for financial instruments since 1986. The IAS 25 “*Accounting for Investments*” - issued in March 1986 - was one of the first accounting standard issued by the

IASC that addresses accounting for financial instrument. However, IAS 39 and IAS 40 superseded IAS 25 (IFRS Foundation, 2013a, p.1373).

The IAS 32 *“Financial Instruments: Disclosure and Presentation”* was another accounting standards issued by the IASC, which outlines the presentation requirements for financial instruments. In addition, it sets a guidance for classification of related interest, dividends, gains/ losses (Deloitte, 2019).

The objective of IAS 32 was to improve the user ability to evaluate the on and off-SFP financial instruments and how it is important to the entity. IAS 32 was seen as starting point to use fair value measurement for financial instruments, because it show both recognized and unrecognized information about fair value evaluation (Lopes & Rodrigues, 2003, p.6). However, the IASC limited this standard to presentation and disclosure issue, not measurement issues (Al-Hayek & Abu El-Haja, 2011, p.39).

In 1990, the credit and savings institutions used historical cost to measure the value of the financial instruments instead of fair value, which led to the saving-loan crisis at that time. As a result, IAS 39 was issue by the IASC in December 1998.

IAS 39 define the rule for recognition and measurement of financial instruments. IASC introduced fair value measurement for financial instruments because they believe that fair value is better and more objective than historical cost (Knežević, et al, 2015, p.22).

However, the later financial crises have increased the debate on measurement bias for financial instruments (Paananen, Renders & Shima, 2012, p.208). In addition, accounting standards on financial instruments were often seen too complex, not working with real business models due to their rule based nature and difficult to understand (IASB, 2014, p.6). In addition, the standard setters faced a lot of criticism from the preparers and the users of the financial statements about IAS 39 application. They argued that IAS 39 needs improvements regarding the complexity of financial instruments standards and when fair value measurement is used (Huian, 2012, p.28).

The IASB issued an amendment to IAS 39 in October 2008 (Paananen, et al, 2012, p.209). The new amendment allowed reclassification of financial instruments as follow:



Figure 1: Reclassification of financial instruments under the amendment to IAS 39 **Source:** Snapshot from Guo & Matovu, 2009, p.3.

(1 to 4) are newly permitted by the amendment to IAS 39 and the other two (5 and 6) are already permitted by IAS 39.

The new amendments were introduced as a direct reaction to the financial crisis (Guo & Matovu, 2009). It is seen as an attempt from the IASB to make accounting standard related to financial instruments useable and can deal with it during financial crisis.

However, under the new amendments, the financial instruments became measured using fair value instead of historical cost or a mix of both. After the global financial crisis, a lot of debate was raised on the use of fair value accounting. Many parties have voiced against the fair value accounting because they believe that fair value was responsible for the financial crisis by allowing managers to manipulate financial statements users by recognizing more change in fair value in other comprehensive income (OCI) (Huian, 2012, p.29, Jarolim & Öppinger, 2012, p.70). In addition, using fair value reduces the information value by enabling companies to avoid reporting unrealized fair value losses (Paananen, et al, 2012, p.211).

On the other hand, many standard setters still favour of fair value accounting instead of historical accounting even after financial crisis. They questioned the role of fair value in the financial crisis since the number of the financial instruments reported using fair value during the crisis was too small. They argued that most of the failures were caused by poorly performing loans (Huian, 2012, p.29). In addition, fair value information provides early warnings to investors and regulators of changes in current market expectations - when asset prices are declining and risk levels for financial institutions are increasing-. However, they argued, historic cost

accounting provides insufficient warning of these changes (Al Hayek & Abu El Haija, 2011, p.40).

As a result of the above debate, the IASB issued IFRS 9. The standard outlines the accounting requirements for recognition and measurement, impairment and general hedge accounting. The standard completed in **three phases, as follow** (IFRS Foundation, 2013b, p.299):

- **Phase I: classification and measurement of financial assets and liabilities.**

- Issuing chapters on how to classify and measure financial assets in November 2009.
- Adding chapter on how to classify and measure financial liabilities in October 2010.
- Making Limited modifications to the classification and measurement chapters in November 2011.
- Issuing an Exposure Draft “Classification and Measurement: Limited Amendments to IFRS 9” in November 2012.
- IASB reissued IFRS 9, including classification and measurement requirements in July 2014.

- **Phase II: impairment methodology.**

- Publishing a request for information on the feasibility of an ECL model in June 2009.

- Issuing an Exposure Draft “*Financial Instruments: AC and Impairment*” in November 2009.
- Issuing an Exposure Draft “*Financial Instruments: Impairment*” in January 2011.
- Issuing an Exposure Draft “Financial Instruments: ECL” in March 2013.
- IASB reissued IFRS 9, including impairment requirements in July 2014.

The major reason for replacing incurred loss model with ECL model was that incurred loss model delayed impairment provision until the default occurs, which was criticized as a major reason for the financial crisis. This conversion is the **most important changes** and the ECL model has to be applied **retrospectively**. (UniCredit, 2015, p.2)

- **Phase III: hedge accounting.**

- The hedge accounting chapter was issue in November 2013.
- IASB reissued IFRS 9, including hedge accounting requirements in July 2014

The IFRS 9 - hedge accounting requirements are optional which give the user the option to continue applying IAS 39 hedge accounting requirement. Therefore, the expected effects of phase III will be minimum, and will be out of scope of this thesis.

❖ IFRS 9 and US GAAP

The IFRS 9 project was initially carried out as a joint project with the *Financial Accounting Standard Board* (FASB). However, in January 2011, after a lot of common efforts, the FASB decided to make its ECL model (EY, 2014, p.5). The FASB made limited changes to the classification and measurement of financial instruments (BDO, 2016, p.6). FASB issued the *Current Expected Credit Loss* (CECL) standard, which is broadly in line with the IFRS 9, which seeks to address this by (CRISIL, 2016, p.4):

- Replacing incurred credit loss with ECL, and
- Introducing lifetime of financial instruments.

The major difference between CECL and IFRS 9 can be summarized as follow (CRISIL, 2016, p.4):

- CECL mandates provisioning for lifetime ECL, while IFRS 9 uses a dual measurement approach (12 months' and lifetime ECL).
- CECL is more practical than IFRS 9, it allows the use of existing credit loss models as long as they can be modified to estimate expected lifetime losses accurately, while IFRS 9 mandates explicit use of *probability of default* (PD), *loss given default* (LGD) and *exposure at default* (EAD) to calculate ECL.

2.3 IAS 39 "*Financial Instruments: Recognition and Measurement*"

2.3.1 Overview

IAS 39 was originally issued in March 1999 by the IASC. However, the original IAS, which had been issued in December 1998, replaced some parts of IAS 25 that issued in March 1986 (IFRS Foundation, 2013a, p.1373).

The IASB adopted IAS 39 in 2001. However, many amendments to the standard were conducted until 2008, such as (IFRS Foundation, 2013a, p.1373):

- a) Allow to use fair value hedge accounting for a portfolio hedge of interest rate risk, March 2004;
- b) Determined when fair value option should be applied, June 2005;
- c) Issuing application guidance for applying hedge accounting requirements, July 2008;
- d) Allowing reclassification for a certain type of financial assets, October 2008;
- e) Determining how to measure reclassified embedded derivatives, March 2009.

This section presents an outline of IAS 39 (version of IAS 39, which was in force in 2008).

2.3.2 Objective and Scope

The IASB has issued the revised IAS 39 in Dec. 2006 to improve IAS 32, by issuing recognition and principles for financial instrument [IAS 39.1]. The new standard tries to **reduce complexity** by providing guidance, improve internal consistencies to the standard [IAS 39, IN2-3].

The scope of IAS 39 (which is the same scope for IFRS 9, with some additions) shall be applied by all entities to all types of financial instruments, except the following [IAS 39.2]:

- a) Interests in subsidiaries, associates and joint ventures accounted for under IAS 27 “*Consolidated and Separate Financial Statements*” or IAS 28 “*Investments in Associates*” or IAS 31 “*Interests in Joint Ventures*”.
- b) Rights and obligations under leases to which IAS 17 “*Leases*” applies.
- c) Employers’ rights and obligations under employee benefit plans, to which IAS 19 “*Employee Benefits*” applies.
- d) Financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (including options and warrants) are within the scope of IAS 39, unless they meet the exception in (a) above.
- e) Rights and obligations arising under insurance contract.

- f) Contracts for contingent consideration in a business combination, only to the acquirer.
- g) Contracts between an acquirer and a vendor in a business combination to buy or sell acquire at a future date.
- h) Loan commitments issued by the entity, to which IAS 37 “*Provisions, Contingent Liabilities and Contingent Assets*” applies.
- i) Rights to payments to reimburse the entity for expenditure.
- j) Financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 “*Share-based Payment*” applies.

2.3.3 Recognition and derecognition

2.3.3.1 Initial recognition

Financial assets and liabilities shall be recognized when, and only when, the entity becomes a party to the contractual provisions of the instrument [IAS 39.14].

2.3.3.2 Derecognition of a financial asset and liability

Derecognition is the removal of a previously recognized financial asset or liability from an entity’s SFP [IAS 39.9]. An entity shall apply derecognition requirements to a financial asset (or a group of similar financial assets) in its entirety. The entity shall apply derecognition requirement when and only when (a) contractual rights expire or (b)

transfer of assets is qualifies for applying derecognition requirements [IAS 39.17].

However, an entity shall apply derecognition requirements to a financial liabilities (or a group of similar financial liabilities) **when, and only when**, it is extinguished [IAS 39.39].

2.3.4 Classification and measurement

2.3.4.1 Initial measurement of financial instruments

At initial recognition, the financial instruments shall be measured at fair value plus transaction costs (if not at FVTPL).

2.3.4.2 Subsequent measurement of financial assets

For measurement and profit recognition purposes, financial assets are classified under the following four categories [IAS 39.45]:

1. *Financial assets at FVTPL*, which meet the following conditions [IAS 39.9]:

a) *Held for trading* (HFT), if:

- Acquired or incurred to be selling or repurchasing in the short term;
- Part of a portfolio that have short-term profit taking purposes; or
- Derivative.

b) FVTPL, without any deduction for transaction costs [IAS 39.46]. A gain or loss on it shall be recognized in profit or loss [IAS 39.55a, 46c].

2. *Held to maturity investments* (HTM), which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity [IAS 39.9].

3. *Loans and receivables* (L&R), which are non-derivative financial assets with fixed or determinable payments that are not quote in an active market [IAS 39.9].

Under (2 and 3) category, financial assets should be measured at AC using the effective interest method (EIM) [IAS 39.46 a, b]. A gain or loss shall be recognized in profit or loss through the amortization process [IAS 39.56].

4. *Available for sale* (AFS), which are those non-derivative financial assets that are designate as AFS or are not classify as (a) L&R, (b) HTM investments or (c) financial assets at FVTPL [IAS 39.9].

A gain or loss on under this category should be recognized directly in equity, through OCI statement. However, interest calculated using the EIM is recognized in profit or loss. Dividends recognized in profit or loss [IAS 39.55b].

All financial assets (except those measured at FVTPL) are subject to review for impairment.

2.3.4.3 Subsequent measurement of financial liabilities

An entity shall measure all financial liabilities; after initial recognition; at AC using the EIM, **except for** [IAS 39.47]:

- a) Financial liabilities at FVTPL, at fair value.
- b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- c) Financial guarantee contracts [IAS 39.9].
- d) Commitments to provide a loan at a below-market interest rate.
- e) Financial liabilities that are designate as hedged.

2.3.5 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative [IAS 39.10].

An embedded derivative shall be separated from the host contract and accounted for as a derivative under IAS 39 if, and only if [IAS 39.11]:

- a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

- b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- c) The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

2.3.6 Reclassifications

Under IAS 39, the entity can reclassify financial instrument between HTM to AFS [IAS 39.51, 52], but not from or to FVTPL.

2.3.7 Impairment

At each SFP date, the entity should ensure if there is an objective evidence that the financial instrument is impaired, which occurred only when there are an event (s) that has an impact on estimated future cash flows that can be reliably measured [IAS 39.59]. Objective evidence of impairment may include [IAS 39.59-61]:

- a) Significant financial difficulty of the issuer or obligor;
- b) Breach of contract;
- c) Probable borrower bankruptcy or reorganization;
- d) Disappearance of an active market; or
- e) Measurable decrease in the estimated future cash flows
- f) A downgrade of an entity's credit rating.

g) A significant decline in the fair value.

2.3.7.1 Impairment of financial assets at AC

For L&R or HTM, impairment loss equals to difference between (a) carrying amount and (b) present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses shall be recognized in profit or loss [IAS 39.63]. The reversal is allowed, but should not exceed the origin-carrying amount [IAS 39.65].

2.3.7.2 Impairment of financial assets at cost

For **unquoted equity instrument**, impairment loss equals to difference between (a) carrying amount and (b) present value of estimated future cash flows discounted at the current market rate of return [IAS 39.66].

2.3.7.3 Impairment of AFS financial assets

For AFS, impairment loss equals to difference between (a) acquisition cost and (b) current fair value, less any impairment loss previously recognized in profit or loss [IAS 39.68]. The reversal allowed, but should not exceed the origin cost [IAS 39.70].

2.3.8 Hedge accounting

2.3.8.1 Qualifying items

For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items [IAS 39.80].

2.3.8.2 Qualifying criteria for hedge accounting

If and only if, all of the following conditions are met [IAS 39.88]:

- a. The hedge is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.
- b. The hedge expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk.
- c. For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- d. The effectiveness of the hedge can be reliably measured.
- e. The hedge assessed on an on-going basis.

2.3.8.3 Hedge accounting

A. **Fair value hedge:** a hedge of the exposure to changes in fair value of hedge item.

B. **Cash flow hedge:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

C. **Hedge of a net investment in a foreign operation.**

A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge [IAS 39.87].

2.3.8.3.1 Fair value hedges

- Gain or loss from re-measuring the hedging instrument shall be recognized in profit or loss [IAS 39.89]; and
- Gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss [IAS 39.89].

2.3.8.3.2 Cash flow hedges

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in OCI; and [IAS 39.95]

- The ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss [IAS 39.95].

For **all other cash flow hedges**, amounts that had been recognize directly in OCI shall be recognize in profit or loss in the same periods during which the hedged forecast transaction affects profit or loss [IAS 39.100].

2.3.8.3.3 Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is account for as part of the net investment shall be account for similarly to cash flow hedges [IAS 39.102].

2.4 IFRS 9 "*Financial Instruments*"

The following paragraphs explain IFRS 9 requirements. References to the third section are used where IFRS 9 requirements remain the same as IAS 39.

2.4.1 Effective date and transition

IFRS 9 was required to be applied at the beginning of the 1st of January 2018 or after [IFRS 9.7.1.1]. However, early adoption is allowed depending on local jurisdiction. For example, banks that operate in Palestine and Jordan were forced early adopt IFRS 9, especially phase I at the end of 2011-2012.

Accordance to IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”, IFRS 9 should be applied **retrospectively** [IFRS 9.7.2.1].

2.4.2 Objective and Scope

IFRS 9 introduces **principles** for the financial reporting which expected to disclose **relevant** and **useful information** to users in order to help them in their evaluation of the **amounts, timing** and **uncertainty** of the entity’s future cash flows [IFRS 9.1.1].

An entity shall apply IFRS 9 to all items within the scope of IAS 39 (see Chapter 2 - paragraph 2.3.2) [IFRS 9.2.1], **with the following additions:**

- **A contract to buy or sell a non-financial item** [IFRS 9.2.5].
- The IFRS 9 impairment requirements apply to all loan commitments and contract assets [IFRS 9.2.2].

2.4.3 Recognition and derecognition

There is a little change in the recognition and derecognition requirements under IFRS 9 compared with IAS 39 requirements (see Chapter 2 - paragraph 2.3.3). **However, the standard adds the following indications:**

- A **write-off** is considered as a derecognition event when there is no reasonable expectations of recovering the value of financial instruments [IFRS 9.5.4.4].

- **Renegotiation** or **modification** may be considered as derecognition event [IFRS 9. B5. 5. 25].

2.4.4 Classification and measurement

If we compare the new classification requirements, we can notice that they are more principle based than classification requirements under IAS 39 (MNP, 2016, p.2).

2.4.4.1 Initial measurement of financial instruments

There is a little change in the initial measurement requirements under IFRS 9 compare with IAS 39 requirements, see Chapter 2 - paragraph 2.3.4.1 (BDO, 2016, p.27). However, if the fair value differs from the transaction price, then the accounting treatment at that date as follows: [IFRS 9.5.1.1A, B5.1.2A]:

- a) If fair value is measured based on a quoted market price or the valuation technique uses observable markets, the difference recorded as a gain or loss.
- b) Otherwise, the gain or loss are recode up to market evaluation.
- c) **Trade receivables** should be measured using their transaction price [IFRS 9.5.1.3].

2.4.4.2 Classification and subsequent measurement of financial assets

Financial assets should be measure at *AC*, *FVTOCI* or *FVTPL*, based on [IFRS 9.4.1.1]:

1. The entity's **business model** for managing the financial assets and
2. The **contractual cash flow characteristics** of the financial asset.

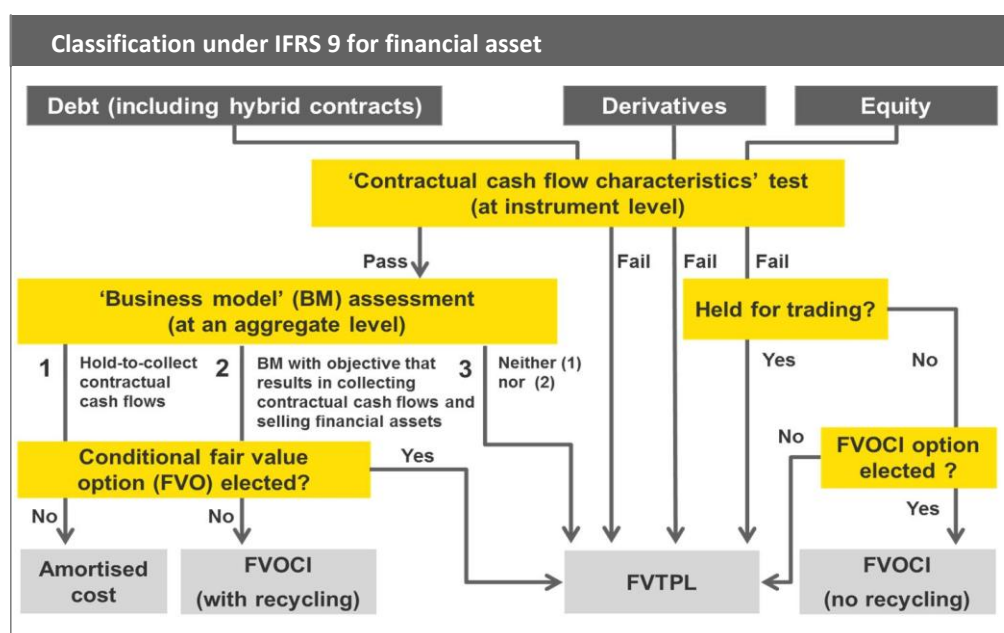


Figure 2: Classification under IFRS 9 for financial asset **Source:** Snapshot from EY, 2015, p.5.

❖ The Business model

The Business model is how an entity generate cash flows from their assets [B4.1.1, B4.1.2, B4.1.2A, and B], [IFRS 9.B.4.1.2A]; **which:**

- Determined by top management, based on how to achieve a specific business objective by using the entity financial assets.
- Does not depend on management's intentions, and one entity may have more than one business model for managing its financial instruments.

- Is a matter of fact, which requires management judgment.

❖ Solely payments of principal and interest (SPPI)

- **SPPI** are consistent with a basic lending arrangement, which take the **time value of money** (which require judgment, EY, 2015, p.11), and **credit risk** into consideration.
- **Interest** covers basic lending risks (e.g. liquidity risk), costs (e.g. administrative costs) and profit margin [IFRS 9. B4.1.7A]. In other words, interest mean what the entity is being compensated for their investment (EY, 2015, p.11).
- **Principal** is the fair value of the financial asset at initial recognition" [IFRS 9.B4.1.7B]. However, it is not the instrument contractual cash flows (KPMG, 2014, p.15).The entity should compare contractual cash flow with amount invested (EY, 2015, p.10).

	Business model = hold to collect	Business model = hold to collect and sell	Other business models
Cash flows are solely payments of principal and interest (SPPI)	Amortised cost	FVOCI*	FVPL
Other types of cash flows	FVPL	FVPL	FVPL

Figure 3: Classification under IFRS 9 for financial asset. **Source:** Snapshot from IASB, 2016.

According to IFRS 9, the financial assets are classified as follows:

A. AC: if [IFRS 9.4.1.2]:

1. Held to collect contractual cash flows and

- The entity should consider the **frequency, value, timing** (prior sales), **reasons for sales** and **expected future sales** [IFRS 9. B4.1.2C].
- If credit risk increase, the entity may sale it and remain within this business model [IFRS 9. B4.1.3, 3A].

2. The SPPI tests are met.

Impairment requirement applied for this category [IFRS 9.5.2.2]. A gain or loss should be recognized in profit or loss when the asset is derecognized or reclassify [IFRS 9.5.7.2].

The major difference between financial assets classified at AC (under IFRS 9) and HTM (under IAS 39) is that: under IFRS 9, AC allow assets to remain measured at AC even if there is an infrequent sale (BDO, 2016, p.11).

B. FVTOCI, if [IFRS 9.4.1.2A]:

1. Held to collect contractual cash flows and selling financial assets and
2. 2. The SPPI test are meet.

Impairment requirement applied for this category [IFRS 9.5.2.2]. A gain or loss should be recognized in OCI until it is derecognized or reclassified, then should be recognized in profit or loss [IFRS 9.5.7.10].

The major differences between financial assets classify at FVOCI (under IFRS 9) and AFS (under IAS 39) is (EY, 2015, p.6):

- AFS was the residual classification election, while FVOCI is not.
- FVOCI apply the same impairment model.
- Simple debt instruments will be measure at FVOCI.

❖ **Investment in an equity instrument**

The entity has the option to classify this instrument at FVTOCI [IFRS 9.5.7.5]. The dividends should be recognized in profit or loss, but this option is not available to investments in subsidiaries, associates and joint ventures [IFRS 9.5.7.6].

C. FVTPL.

At initial recognition, the entity has irrevocable option to measure a financial asset at FVTPL, which will eliminates or reduces a measurement inconsistency [IFRS 9.4.1.5]. IFRS 9 remain only one of the requirement for applying fair value option as IAS 39, which is applying the option reduce the accounting mismatch. That because IFRS 9 does not require embedded derivatives to be separated (KPMG, 2014).

2.4.4.3 Classification and subsequent measurement of financial liabilities

There is a little change in the classification of financial liabilities under IFRS 9 (compare with IAS 39 requirements, see Chapter 2 - paragraph 2.3.4.3) because the benefits of changing will not outweigh the cost of changing (KPMG, 2014, p.34).

However, IFRS 9 require entity to separate change in the fair value due to change in the credit risk (presented in OCI and not transfer to profit or loss) from the remaining amount of change (presented in profit or loss), unless this separation will create an accounting mismatch (all change presented in profit or loss) [IFRS 9.5.7.7, B5.7.9].

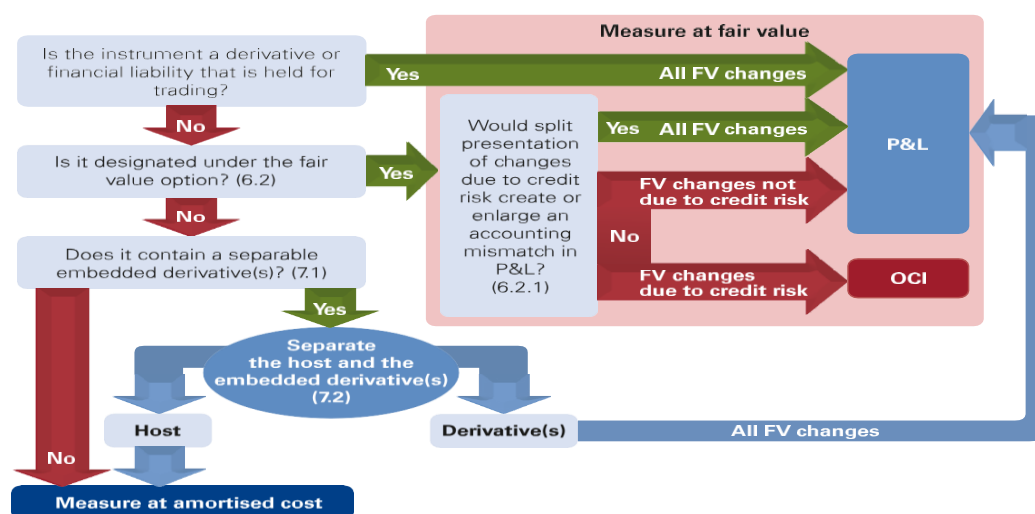


Figure4: Classification and measurement of financial liabilities under IFRS 9. **Source:**

Snapshot from KPMG, 2014, p.35.

2.4.5 Embedded derivatives

There is a little change in accounting for embedded derivatives under IFRS 9 (compare with IAS 39 requirements see Chapter 2 - paragraph 2.3.5). The new requirements enable the embedded derivative to be not separated from an asset host contract (KPMG, 2014, p.38; BDO, 2016, p.24) in order to simplify the accounting requirement for embedded derivatives by elimination of bifurcation rule under IAS 39 (Sichirrollo, 2015; MNP, 2016, p.2). However, this simplification does not apply to the financial liabilities (BDO, 2016, p.26).

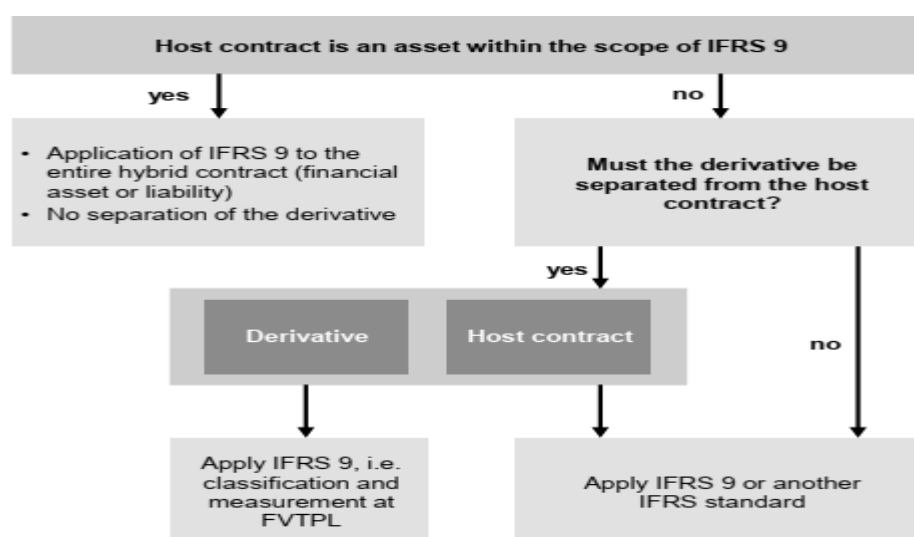


Figure 5: Classification of an embedded derivative under IFRS 9. Source: Snapshot from UniCredit, 2015, p.8.

2.4.6 Reclassifications

Reclassification for financial assets (not liability) is allowed under IFRS 9 only when the entity changes its business model [IFRS 9.4.4.1-2].

Reclassification should be applied prospectively from the reclassification date [IFRS 9.5.6.1].

The reclassification of financial assets occurs between the following [IFRS 9.5.6.2-7]:

1. From the AC into:

- The **FVTPL**, fair value should be measured at the reclassification date; any gain or loss should be recognized in profit or loss.
- The **FVTOCI**, fair value should be measured at the reclassification date; any gain or loss should be recognized in OCI.

2. From the FVTPL into:

- The **AC**, fair value should be measured at the reclassification date which becomes its new gross carrying amount [IFRS 9.B5.6.2].
- The **FVTOCI**, fair value evaluation still used [IFRS 9.B5.6.2].

3. From the FVTOCI into:

- The **AC**, fair value should be measured at the reclassification date; any cumulative gain or loss previously recognized in OCI should be transferred from equity to the new fair value of the instruments.
- The **FVTPL**, fair value should be measured at the reclassification date; any cumulative gain or loss previously recognized in OCI should be transferred from equity to profit or loss.

		Reclassification into		
		FVTPL	FVOCI	Amortized cost
Reclassification out of	FVTPL		<ul style="list-style-type: none"> Financial asset continues to be measured at fair value Subsequent changes in fair value are recognized in OCI 	<ul style="list-style-type: none"> The fair value on the reclassification date is the new gross book value The effective interest rate is calculated based on the new gross book value
	FVOCI	<ul style="list-style-type: none"> Financial asset continues to be measured at fair value Cumulated OCI gain or loss is reclassified from equity to profit or loss 		<ul style="list-style-type: none"> Reclassification at fair value at the reclassification date Cumulated OCI gain or loss is removed from equity and adjusted against the fair value (new amortised cost)
	Amortized cost	<ul style="list-style-type: none"> The fair value on the reclassification date is the new book value Any difference between the previous amortized cost and the fair value is recognized in profit and loss 	<ul style="list-style-type: none"> Measurement of the fair value at the reclassification date Any difference between the previous amortized cost and the fair value is recognized in OCI 	

Figure 6: Reclassification of financial assets under IFRS 9 **Source:** Snapshot from UniCredit, 2015, p.6.

2.4.6 Impairment

IFRS 9 introduces **ECL model**, which applies to all assets that applicable for impairment, **except:**

- 1) Purchased or originated credit-impaired assets.
- 2) Trade receivables, contract assets and lease receivables.

However, the single general impairment model had three applicable approach to be implemented depending on the type of asset or exposure; which are:

- a) General (or three-stage) approach, which applied to all financial assets except those (1, 2) above.
- b) Simplified (lifetime expected loss) approach, which applied to trade receivables, contract assets and lease receivables.

c) Change of lifetime expected loss approach, which applied to purchased or originated credit-impaired financial assets.

All credit exposures (except FVTPL) will have a loss allowances (E&Y, 2014, p.8).

2.4.6.1 The General (or three-stage) approach

According to general approach under IFRS 9, all companies shall recognize an impairment loss allowance for **ECL** on [IFRS 9.5.5.1-2]:

1. Financial asset at **AC**.
2. Financial asset at **FVTOCI**, which recognized in OCI.
3. Lease receivable.
4. Contract asset or a loan commitment.
5. Financial guarantee contract.

Equity investments (event at FVTOCI) or financial instruments at FVTPL are not subject to ECL. Meanwhile, gains or losses recognized in OCI will never be transfer to profit or loss (MNP, 2016).

At each reporting period, the companies should apply ECL model and evaluate if credit risk of the financial instruments have been significantly increased since initial recognition, then measure impairment loss equal to [IFRS 9.5.5.3-5]:

- 1) **12-month ECL**; if the credit risk remains low since initial recognition.
- 2) **Lifetime ECL**; if the credit risk increased significantly since initial recognition.

The entity should apply ECL model retrospectively [IFRS 9.7.2.17]. However, after measuring ECL, the entity should recognize impairment loss in profit or loss. The reversal of impairment loss is allowed if credit risk is decrease [IFRS 9.5.5.7, 8].

IFRS 9's general (or three-stage) approach (which depend on credit quality) to apply ECL model include (Thornton, 2016, p.6).

- **Stage 1:** for financial instruments that have low credit risk since initial recognition. The 12-month ECL is applied at this stage.
- **Stage 2:** for financial instruments that have a high credit risk compared with their credit risk at initial recognition, but not defaulted. The lifetime ECL is applied at this stage.
- **Stage 3:** for defaulted financial instruments (as IAS 39). The lifetime ECL is applied at this stage.

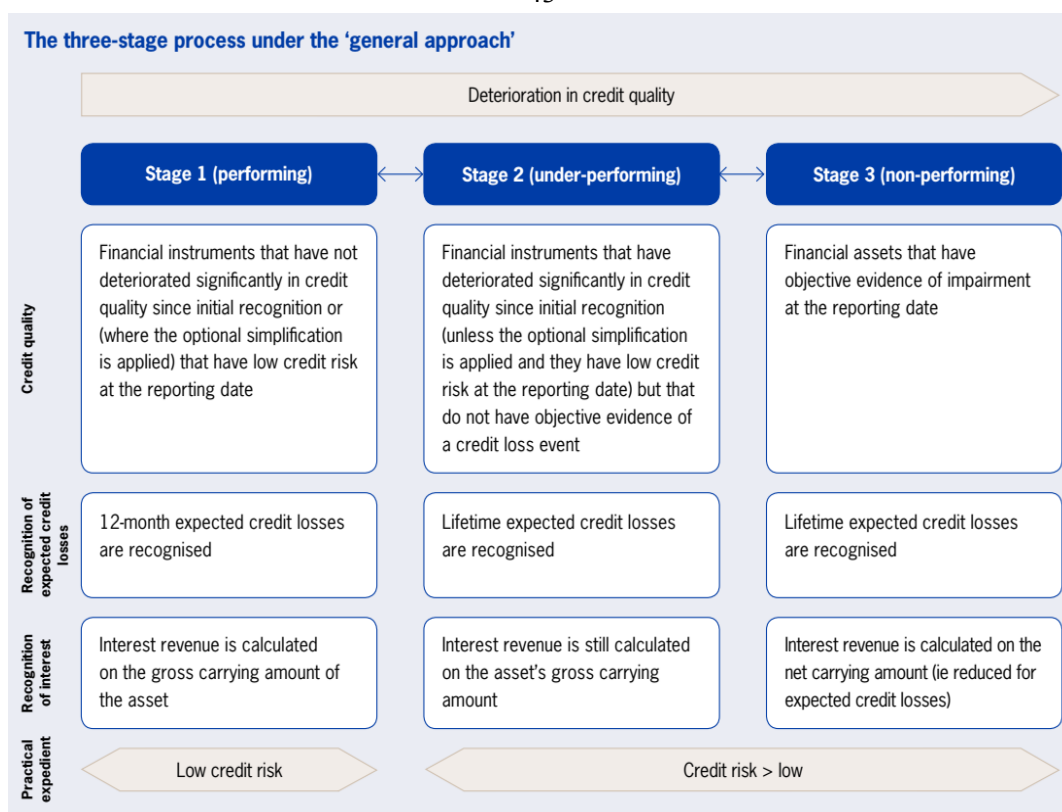


Figure 7: Overview on the General (or three-stage) impairment approach. **Source:** Snapshot from Thornton, 2016, p.8.

2.4.6.2 Determining significant increases in credit risk

At each reporting period, an entity should determine if the credit risk have increased significantly since initial recognition by comparing current risk of default with the risk of default at initial recognition using reasonable and supportable forward-looking information, which is available without undue cost or effort. This information should be relevant for assessment [IFRS 9.5.5.9, 10,B5.5.16].

However, **low credit risk option** which enable entities to assume that credit risk for a specific financial instrument have not been increased since initial recognition [IFRS 9.5.5.10]. Low credit risk option apply to financial instruments that have (1) Low risk of default and (2) strong capacity (for borrower) to fulfil contractual cash flow obligations [IFRS 9.B5.5.22].

In applying the low credit risk option, the entity may use its **internal credit risk** or **external rating** [IFRS 9.B5.5.23]. However, external rating should be used as lagging indicator because external rating may not reflect factor that affect credit risk, which occurs after assigning the rating. In addition, the external definition of default might be different from internal definition (UniCredit, 2015, p.12).

When forward looking information is not available, the entity may use **the 30 days past due presumption**, which indicate that the credit risk has increased when contractual payments are more than **30 days past due** [IFRS 9.5.5.11].

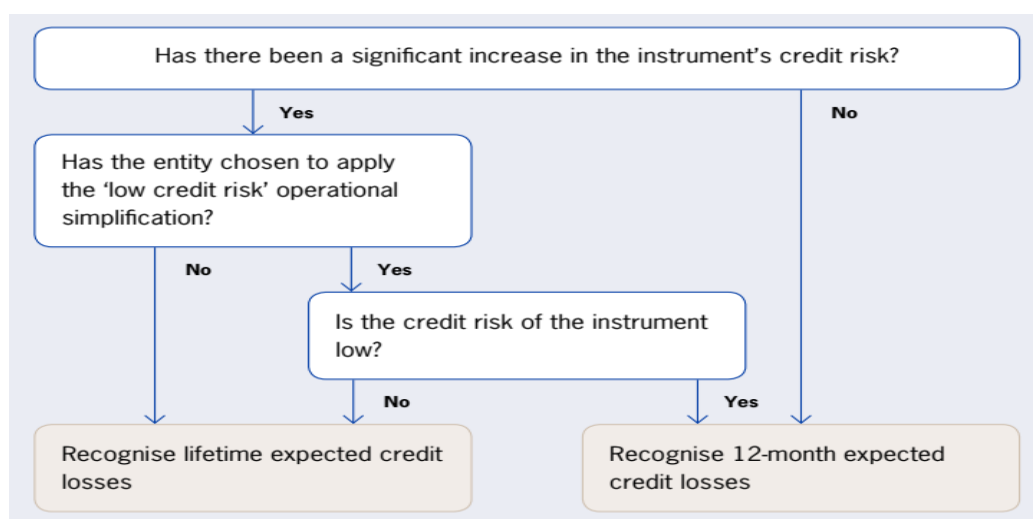


Figure 8: Overview on impact of a significant increase in credit risk. Source: Snapshot from Thornton, 2016, p.9.

2.4.6.3 Modified financial assets

Renegotiated or modified the contractual cash flows, require entity to evaluate whether credit risk have been increased by comparing the risk of default after renegotiation or modification with risk of default at initial recognition [IFRS 9.5.5.12, B5.5.25-27].

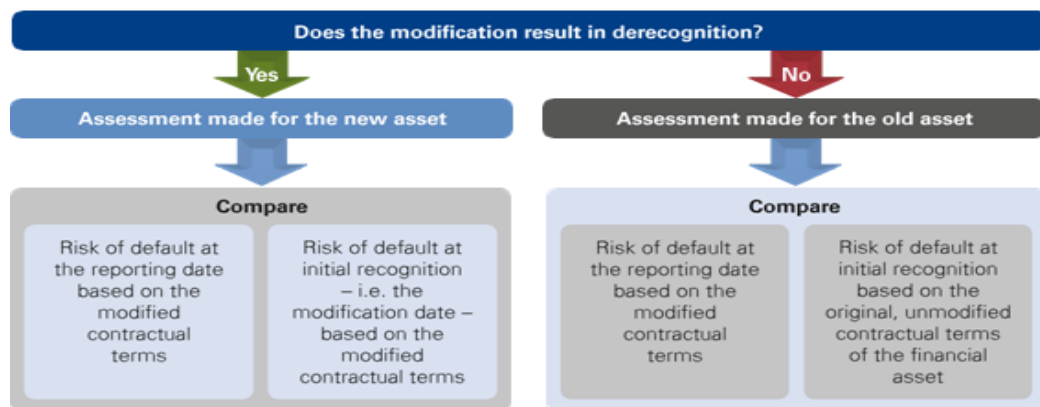


Figure 9: Overview on impairment of modified financial assets under IFRS 9. **Source:** Snapshot from KPMG, 2014, p.76.

2.4.6.4 The Simplified approach

This approach applied for **trade receivables, contract assets and lease receivables, which use lifetime ECL** [IFRS 9.5.5.15].

2.4.6.5 Changes in lifetime ECL Approach

This approach applied to **purchased or originated credit-impaired financial assets** which use changes in lifetime ECL since initial recognition [IFRS 9.5.5.13]

2.4.6.6 Measurement of ECL

2.4.6.6.1 ECL

- **ECL** are a "**probability-weighted** estimate of credit losses over the expected life of the financial instrument". A **cash shortfall** is the difference between contractual cash flows expected cash to be receive [IFRS 9.B5.5.28].

ECL model applied should reflect the following [IFRS 9.5.5.17]:

- a) **Unbiased and probability-weighted of possible outcomes**; not a worst-case nor best-case scenario, but a probability-weighted of possible outcomes [IFRS 9.5.5.18, B5.5.41].
- b) Time value of money; discounted expected cash flow to the reporting date using EIM [IFRS 9.B5.5.44],
- c) Using reasonable and supportable forward-looking information which is available without undue cost or effort about past, current and future events.

2.4.6.6.2 ECL calculation model

The ECL is obtained by multiplying, the PD, the LGD and the EAD, as following:

$$EL = PD * LGD * EAD$$

According to Deloitte (2016, p.22; Đurović, 2018, p.210), ECL calculations based on four components:

1. The PD, which is "an estimate of the likelihood of default over a given time horizon". However, there is two types of PDs:

a) **12-month PDs** occurring within the next 12 months, which used in stage 1.

b) **Lifetime PDs**, which is "the estimated probability of a default occurring over the remaining life of the financial instrument", which used in stage 2 and 3.

2. The LGD, which is "an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral".

3. The EAD, which is "an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest".

- LGD can also be computed by using the recovery rate (RR), as follow:

$$\text{LGD} = 1 - \text{RR};$$

Where $\text{RR} = \text{Value of Collateral} / \text{Value of the Loan}$

4. The Discount Rate, EIR at initial recognition.

$$\text{Discount Rate} = 1 / (1 - r)^i$$

Where r = number of years, i = EIR

2.4.6.6.3 Period over which to estimate ECL

The maximum period for ECL equals to the maximum period where the entity exposed to credit risk [IFRS 9.5.5.19-20, B5.5.38].

2.4.6.6.4 Collateral

The expected cash flow from the realization of collateral are used as a part in the ECL calculation [IFRS 9.B5.5.55]. This consider as a main difference between IFRS 9 and IAS 39 (UniCredit, 2015, p.16).

2.4.6.6.5 Collective and individual assessment basis

Collective assessment basis are allowed under IFRS 9 for singles financial instruments that have the same credit characteristics when information on individual bias are not available [IFRS 9.B5.5.1,4, B5.5.5].

2.4.6.6.7 Definition of default

The default definition for IFRS 9 purposes should be comply with internal default definition for risk management [IFRS 9.B5.5.37].

2.4.7 Hedge accounting

The IASB introduce a new principle hedge accounting model under IFRS 9 to overcome the weakness in IAS 39 hedge accounting model. The new model is less complex and representing the entity risk management. Also, it increases the scope of hedge accounting (Sichirrollo, 2015, p.80; BDO, 2016, p.49). The entity has the ability **to continue to apply the hedge accounting requirements under IAS 39** [IFRS 9.7.2.21].

2.4.7.1 Hedging instruments

IAS 39 does not restrict how to designate a derivative as a hedging instrument [IAS 39.72]. On the other hand, IFRS 9 determined the qualifying instruments (under a certain conditions) as:

- a) A derivative measured at FVTPL [IFRS 9.6.2.1, B6.2.4].
- b) Embedded derivatives is not a hedging instrument if not separated from the host contract [IFRS9.B6.2.1]
- c) A non-derivative financial asset or liability measured at FVTPL [IFRS 9.6.2.2].
- d) The foreign currency risk component of a non-derivative financial asset or liability [IFRS 9.6.2.2].
- e) Contracts with external party [IFRS 9.6.2.3].

2.4.7.2 Hedged items

Remain the same as IAS 39 (see Chapter 2 - paragraph 2.3.8.1). However, the requirement under IAS 39 to consider a group of items as a hedge items no longer required under IFRS 9 (UniCredit, 2015, p.20).

2.4.7.3 Qualifying criteria for hedge accounting

By applying a principle-based rules to determine the qualifying criteria for hedge accounting under IFRS 9, the scope of the new model increases the number of items that qualifying for hedge purposes (MNP, 2016, p.16; BDO, 2016, p.53).

2.4.7.4 Accounting for qualifying hedging relationships

There are three types of hedging relationships under IFRS 9 as IAS 39 (see Chapter 2 - paragraph 2.3.8.2)

2.5 Classification and measurement of financial instruments under the IFRS 9

Classification of financial instruments under IAS 39 "were criticized as being too numerous, complex and rule-based" (Sichirollo, 2015, p.8), which based on management intent without providing any guidance to how apply this intent. This leaves management with a great ability to exercise professional judgment. However, sometimes, management changes their intent in order to affect the treatment of gains and losses, which made financial statement element more volatile (Knežević, et al, 2015, p.22).

In addition, classification of financial instruments under IAS 39 enables managers to designate the financial instrument into the profitable category (earning management) not into the category that reflects real management intent (Knežević, et al, 2015, p.24).

After the global financial crisis, the IAS 39 classification criteria came to the attention of standard setters as a main weakness in accounting standards related to financial instruments. As a result, IFRS 9 introduce the business model as a classification base (EY, 2015; MNP, 2016, p.2).

The new business model under IFRS 9 reduces the complexity in the classification of financial instruments. Only two categories (AC and fair value) under IFRS 9 replaced the 4 categories under IAS 39 (Huian, 2012, p.39).

Business model presents “the way the entity manages its financial assets in order to generate the cash flow”. *United Kingdom Corporate Governance Code* (UKCGC) characterizes the business model as “the basis on which the company generates or preserves value over the longer term” (Page, 2012). According to the classification model under IFRS 9, what became important is the business strategy risk not the asset risk (Huian, 2012, p.40).

According to classification and measurement rules under IFRS 9, financial instruments should be classified based on the entity business model and the financial instruments contractual cash flow characteristics.

As a result, financial instruments will be measured at AC or fair value (IFRS 9).

The business model used under IFRS 9 is "well-structured, objective and easily implemented" (Knežević, et al, 2015, p.22). The new classification model makes accounting information "more relevant, comparable, objective and transparent for users". However, changing classification criteria in IFRS 9 may reduce the comparability of company's financial statements, because it depends heavily on professional judgment. In addition, applying professional judgment may increase the volatility of earnings (Knežević, et al, 2015, p.22).

In addition, the business model built on principle rules, which may the subjectivity in the classification of financial instruments. Moreover, IFRS 9 does not provide sufficient guidance to implement the new model, which will increase the difference between entities in the application of that model and reduce the ability to compare between companies (Huian, 2012, p.40).

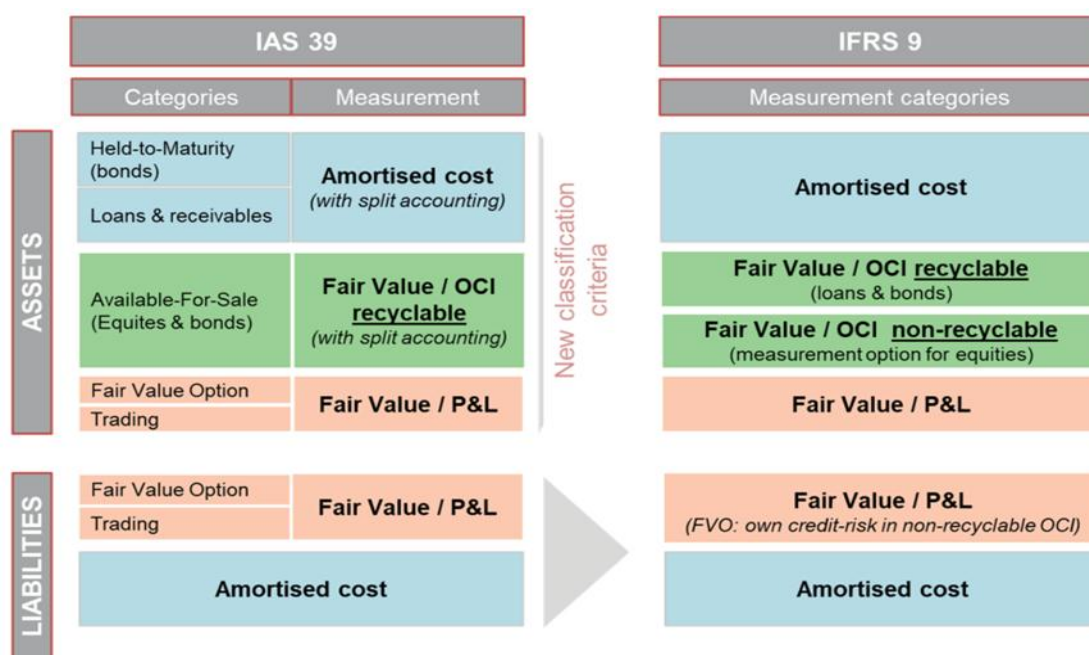


Figure 10: Comparison of classification and measurement under IAS 39 and IFRS 9. **Source:** Snapshot from Mojca & Gornjak (2018, p.151).

2.6 The expected effect of applying phase I of IFRS 9 “Classification and Measurement” on earnings and Owners equity

In order to understand the expected effects from applying Phase I of IFRS 9 – the new classification and measurement model - on the corporation financial statements, we will start by analysing the effect from applying the amendment of IAS 39 on corporate financial statements, spicily banks financial statements.

IAS 39 enables the corporation to reclassify out of AFS to HTM category. However, the amendment provides four additional types of reclassifications. From trading assets to AFS or HTM or L&R. Also, from AFS to L&R. The reclassification option under the amendment to IAS 39 produces both favourable (week banks will not record fair value loss and comply with capital requirements) and unfavourable (increase information

asymmetry) effects. In addition, the new amendment will affect banks equity, profit, and key performance indicators (KPIs) (Bischof, Brüggemann & Daske, 2010; Knežević, et al, 2015, p.25).

According to Bischof et *al.* (2010, p.11), the effect of applying the new amendments will be **as follows**:

- 1) Reclassifications from HFT to HTM or L&R category affects both net income and equity, because the company will recognize fair value gains and losses in profit or loss, which will transfer to equity.
- 2) Reclassifications from HFT to AFS affect only net income, because the company will recognize fair value gains and losses in the revaluation reserve.
- 3) Reclassifications from AFS to L&R or HTM affect only equity (OCI), because the company will recognize fair value gains and losses in the revaluation reserve.

Paananen, et al (2012, p.208) found that banks made the reclassification of financial instrument under the new amendment **when**:

1. CARs close to the minimum requirement.
2. Exposure to fair value measurement increase.
3. Investors rely less on earnings and book value will increase.

In addition, the general findings of (Guo & Matovu, 2009) research show that the new amendment helps the banks with the declining condition and avoid further impairment losses. The banks that adopted the reclassification option took advantage of the positive effects on profits. The reclassification choice could be heavily influence by banks' financial position and performances.

The IFRS 9 model for classification and measurement of financial instruments will result in more financial instruments measured at AC (BNP - PARIBAS FOTES, 2015).

According to Knežević, et al (2015, p.25), applying IFRS 9 model for classification and measurement will increase volatility of earnings and equity. The early adopters **expect the following effect:**

Table 1: The expected effect on earnings from applying IFRS 9.

Financial Instruments	Pessimistic scenario*	Optimistic scenario**
FVTPL	Profit will decrease, because revaluation loss will be record in the income statement .	Profit will increase, because of recognizing unrealized gains .
FVTOCI	Equity will decrease, because revaluation loss will be record in OCI.	Equity will increase , because of recognizing unrealized gains .
AC	<u>No effect.</u>	

Source: Summary from Knežević, et al, 2015.

* **Pessimistic scenario** - decrease in financial instruments value.

** **Optimistic scenario** - increase in the financial instruments value.

Reclassification of financial assets under IFRS 9 is different totally from IAS 39, due to different category under both standards. On the other hand, reclassification of financial liabilities under both standards is prohibited (Sichirrollo, 2015, p.16).

Under IFRS 9, **the measurement basis for financial assets** “SFP structure” is likely to **remain broadly the same**. Therefore, the AC will be, in most cases, the most relevant category. The overall impact of the change in classification and measurement requirements **does not seem very significant for most banks**. However, **some banks are affected more**, perhaps mainly because the special features of some of the instruments failed it in SPPI test (ESMA, 2016).

Applying IFRS 9 measurement basis for financial instruments could result in reclassifications and possibly between all categories (FVPL, FVOCI and AC), but the impact of these **reclassifications does not seem very significant** for the vast majority of banks (ESMA, 2016). **Reclassifications have been estimate as follows:**

1. Banks estimate movements towards **FVTPL** (from **AC** or **FVOCI** under IAS 39) **due to** instruments **failing the SPPI assessment**.
2. Banks intend to reclassify **equity instruments** that are currently classified in **FVOCI** under IAS 39 as **FVTPL**, because IFRS 9 prohibited gains and losses transfer to profit or loss.

3. Banks estimate movements towards AC or FVOCI from the FVTPL or from FVOCI under IAS 39 to AC and vice versa, due to the outcome of the business model assessment.
4. Banks anticipate using of the fair value option as it before IFRS 9.
5. The majority of loans and advances expect to be continue measured at AC and those that currently being measure at FVTPL are likely to continue to be measure on that basis under IFRS 9.

Capital Adequacy Standards require banks to maintain, at all times, a minimum amount of capital resources, which is typically base on a percentage of its risk weighted. The supervisory minimum required capital resources (which depend on Basel minimum requirements) may be affected by the way the banks classifies and measures its financial assets when transitioning from IAS 39 to IFRS 9 (MNP, 2016, p.15).

The expected effect form IFRS 9 on capital requirements is based on the impairment requirements and the classification and measurement requirements (little decrease in the CET1 ratio) (ESMA, 2016).

According to BCBS (2017) and other regulatory bodies argue that phase I of the IFRS 9 will enable the preparation of financial statements to reflect the fair value of financial instruments more easily. Also, it will decrease the ability of company' managements to manipulate – in financial statements – by limiting their ability to reclassify financial instruments between different categories (HFT, AFS, and HTM) to misleading user

from different accounting treatments of gain and losses of each category; which may reflect in profits and losses statements or in OCI statements.

2.7 The expected effects from applying phase II of IFRS 9 “Impairment Model” on earning, SP & GP and CAR

The global financial crisis had shown how calculating provisioning for loans and other financial instruments based on historical trends under the incurred loss approach (IAS 39) can be **inadequate**, because it was made after the default events have already occurred and does not factor in macroeconomic cycles (CRISIL, 2016, p.4).

The major problem that has been identified after the global financial crisis is that IAS 39 delay the recognition of impairment losses until the default has been occurred (Sichirolo, 2015, p.18). In addition, IAS 39 has another major problem, it used different impairment for similar assets (Thornton, 2016, p.2).

The incurred loss approach has been viewed as “too little and too late” in regarding impairment losses. As a result, provisioning under IAS 39 - as practiced - often does not meet supervisory requirements from the perspective of credit risk review and capital adequacy assessment, because its leaves substantial room for judgment, which may result in insufficient, provisions (IMF, 2014, p.6).

According to the previous problems with incurred loss approach, the IASB introduced a “more principle based and forward looking ”ECL model (Sichirrollo, 2015, p.18; Đurović, 2018, p.209).

IFRS 9 have only one ECL model for all financial instruments. Impairment losses are recognized since day one of investment, and at each reporting date, even if default has not been occurred (MNP, 2016, p.3).

Credit impairment under ECL modelling seen as increasing the usefulness of financial statements by conveying more accurate and timely estimates of credit losses (CRISIL, 2016, p.5). IFRS 9 is also expected to better align supervisory and accounting requirements by recognizing ECL in a timelier manner (IMF, 2014, p.4).

The ECL model may represent the most significant shift in accounting since the last global financial crisis (Labat & Lemonnier, 2015, p.6). The new accounting provisioning models introduce fundamental changes to banks’ provisioning practices in qualitative and quantitative ways, as higher provisions are possible with the lifetime concept and the inclusion of forward looking information ECL calculation (BCBS, 2016, p.12; Capgemini, 2016). In addition, the scope of IFRS 9 impairments model is wider than IAS 39; which will contribute to this increase.

The initial application of the ECL may have a negative effect on equity, because equity will no longer only reflect incurred credit losses but will also include ECL (UniCredit, 2015, p.10). Moreover, the new model may cause volatility in equity and profit and loss (P&L) because external

information used as inputs may be volatile and any movement between stages can result in large changes in the corresponding loss allowance (UniCredit, 2015, p.10; EBA, 2016). However, these volatilities depends on various modelling decisions, particularly the design of transfer criteria from stage 1 to stage 2, at which provisions need to be raised from a one-year to a lifetime ECL (Labat & Lemonnier, 2015, p.6).









The impact on banks is expected to be particularly large. However, a bank's regulatory capital (which is a KPI) may also be affected via the reduction of Tier 1 (common equity Tier-1 "CET1" in Basel III) capital and total capital ratio (UniCredit, 2015, p.10; EBA, 2016).

According to Basel, Tier 1 capital comprises a bank's core capital and includes common shares, stock surpluses, retained earnings and accumulated other comprehensive income (AOCI). The implementation of ECL model expected to increase in provisions, which will decrease the profits of banks. As result, the retained earnings will be decrease; which will reduce equity, Tier 1 capital and total capital for banks.

However, "the impact on total capital ratio is lower compared to the impact on CET1 ratio because the excess of accounting provisions over regulatory expected losses is added back to Tier 2, subject to a regulatory cap" (EBA, 2016, p.31). Another factor that influences these ratios is the increase in credit risk (when PD increase) which affects the risk weighted assets (RWA). When the Tier 1 capital decreases and RWA increases, these

ratios will decrease; however, the level of impact is difficult to determine and is challenging in planning scenarios (Capgemini, 2016, p.4).

Table 2: Expected effect from applying ECL on CAR.

(1) Tier 1 capital 	
Common shares	
Stock surpluses	
Regulatory reserves	
Retained Earnings	
(2) Tier 2 capital	
General provisions (GP) (up to 1.25% of RWA)	
Quilling subordinated loan	
Others reserves	
(3) Total Capital (1+2) 	
(4) Supervisor deduct	
(5) Capital base (3-4) 	
CAR 	Capital Base 
	RWA 

Source: Basel accord II, 2006.

In addition, the leverage ratio is affected. Under Basel III, the leverage ratio is defined as the ratio of capital measure “Tier 1 Capital (CET1)” divided by Net Exposure measure. The ratio should reach 3% at a minimum as currently proposed during the transition period. For banks that used SA (all the banks that operate in Palestine and Jordan), any impairment loss on a loan based on income statements has a direct impact on Core Tier 1 capital, as it reduces retained earnings. As Tier 1 capital and total net exposure reduce equally, leverage ratios should also decline (Labat & Lemonnier, 2015, p.7).

Changing KPIs not only affect regulatory authorities' requirements, but also influence the business model and internal business decisions, such as on investment activities or on business strategies in the competitive environment (Capgemini, 2016, p.5).

ECL model will have also a significant effect on total assets as an increase in loss allowances is expected. As a result, banks will need to assess and manage the impact of the transition and appropriately communicate with stakeholders (MNP, 2016, p.15).

IFRS 9 will have a large impact on banks from applying the new impairments model; which can be summarized as the following:

- Provision will increase, specially, Loan loss provisions.
- Profits will be reduced, as provisions will increase, particularly in the first year of the implementation of IFRS 9.
- Retained earnings will be decrease as profit decrease.
- Equity will be decrease as retained earnings decrease.
- Regulatory Capital Requirements, specially CAR will be decrease.

2.7.1 Impairment provision from accounting and regulatory viewpoint

According to the regulator, the provisions made to cover expected losses and capital allocate to unexpected losses. However, from an accounting perspective, it's a reduction in the carrying amount of a loan (Hronsky, 2010, p.55).

Regulators around the world have a special requirement for provision. In the banking sector, central banks (monetary authorities) such as PMA and JCB, have special instructions for classification of credit facilities and calculation of impairment provision and risk reserve (refer to GP). These instructions divide impairment provisions into two types:

1. **SP**, represent a contra-asset line item on the SFP that is intended to absorb against current losses. SP provision are developed over time through the accumulation of loan loss provisions, an expense item on the income statement; which reduce the banks profit (Stefano, 2018, p.3).
2. **GP**, represent an equity line item on the SFP that intends to absorb against future unexpected losses. GP provision reduces the banks retained earnings (Stefano, 2018, p.3).

Basel capital frameworks (Basel I and II) have distinguished between GP and SP. "GP are provisions held against future, presently unidentified losses that are freely available to meet losses which subsequently materialize. Provisions ascribed to identify deterioration of particular assets or known liabilities, whether individual or grouped, are **SP**" (IMF, 2014, p.7; BCBS, 2017, p.2).

Basel I permitted a limited amount of GP (up to 1.25% of RWA) to be included in total Tier 2 capital. Because of continuing differences across jurisdictions in provisioning practices under incurred loss models (IAS 39), the BCBS decided to retain its Basel I treatment of GP when it adopted the Basel II SA for credit risk (BCBS, 2016, p.4).

The BCBS identified **varied practices** made by banks in accounting and regulatory provisions under IAS 39. Specifically, there is (BCBS, 2016, p.2):

1. Variability in the levels of provisions across accounting standards and jurisdictions‘
2. Variability in the levels of provisions across banks applying the same accounting standard; and
3. Variability in the classification of accounting provisions as SP or GP for regulatory purposes.

2.7.1. A-Palestinian regulation

Based on the PMA Instructions number (01/2008) “*Classification of credit facilities, allowances and guarantees accepted*”, banks are required to classify and made SP for credit facilities based on past due status as follow:

Table 3: Summary of PMA instruction number (01/2008).

Classification of credit facilities		Past due in payment of PI	Required SP
Performing		Less than 30 days	0%
Watch list		30-90 days	0%
Non-Performing	Substandard	91-180 days	20%
	Doubtful	181-360 days	50%
	Loss	More than 360 days	100%

In addition, banks that operate in Palestine also required making GP for credit facilities. According to PMA instructions number (06/2015) “*Capital, reserves and equity*”, banks are required to create a risk reserve (GP) as follow:

Table 4: Summary of PMA instructions number (06/2015).

Credit facilities	Required GP
Net Direct credit facilities	1.5%
Net In-direct credit facilities	0.5%

2.7.1. B-Jordanian regulations

According to JCB Instructions number (47/2009) “*Classification of credit facilities, calculation of impairment provision and general bank risk reserve*”, banks are required to classify and made SP for credit facilities; which based also on past due states as follow:

Table 5: Summary of JCB instruction number (47/2009) – SP.

Classification of credit facilities		Past due in payment of PI	Required SP
Low risk		Less than 60 days	0%
Acceptable risk		Less than 60 days	0%
Watch list		60-90 Days	1.5%
Non-Performing	Substandard	90-179 Days	25%
	Doubtful	180-359 Days	50%
	Loss	More than 360 days	100%

In addition, banks that operate in Jordan also required making GP for credit facilities. According to JCB instructions number (47/2009), banks are required to create risk reserve (GP) as follow:

Table 6: Summary of JCB instruction number (47/2009) – GP.

Credit facilities	Required GP
Net Direct credit facilities	1.5%
Net In-direct credit facilities	0.5%

On the other hand, under IFRS 9 distinction between GP and SP does not exist. As a result, BCBS recommended the regulator to provide banks with instructions to how distinction ECL provisions as GP and SP for regulatory purposes. As a result, PMA and JCB issued new instructions to banks to how distinction ECL provisions as GP and SP.

PMA issued instructions number (02/2018) “*Guidelines for IFRS 9 Implementation Requirements*” to inform Palestinian banks how to distinction ECL provisions as GP and SP. According to PMA instructions, Stage 1 & 2 of ECL will be treat, as SP and Stage 3 of ECL will be treat as GP. In addition, JCB issued instructions number (13/2018) “*IFRS 9 Implementation*” to inform Jordanian banks how to distinction ECL provisions as GP and SP. According to JCB instruction, Stage 1 of ECL will be treated as SP and Stage 2 & 3 of ECL will be treated as GP.

Table 7: Summary of PMA and JCB instructions to distinction ECL provisions as GP and SP.

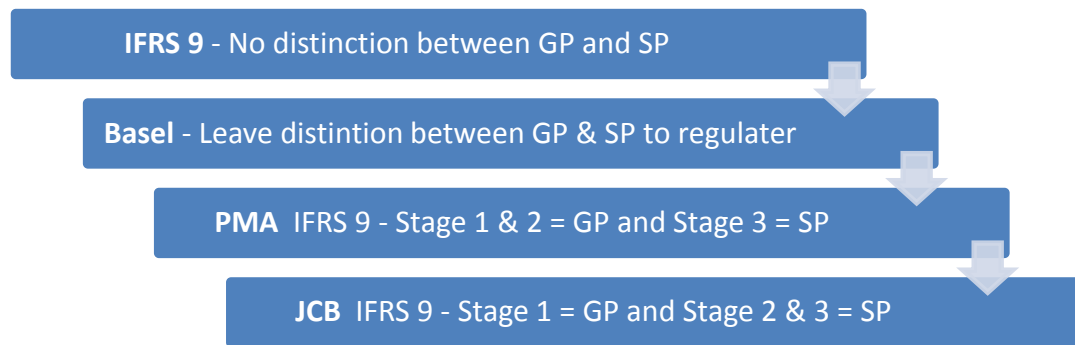
	Provision	Instruction #	ECL
PMA	General	06/2015	Stage 1&2
	Specific	01/2008	Stage 3
JCB	General	47/2009	Stage 1
	Specific		Stage 2&3

According to PMA instruction [s](#) number (02/2018), banks should at the beginning period for applying ECL (1st January 2018) transfer GP account from equity to ECL provisions (stage 1&2) in the SFP and if there any shortage; it will be covered from retained earnings. However, if there any surplus; it will be under GP in equity. As a result, the expected effect from applying ECL model will be less than expected (increase provisions) in others country.

The income statements for the Palestinian banks (at the end of 2018) will be decreased by a little amount or not affected at all, because the PMA allows banks to use amounts accumulated in GP (before 2018) to cover provisions (stage 1 & 2) required under IFRS 9. In addition, if banks face a shortage in the beginning balance it will cover it from retained earnings.

On the other hand, JCB instructions number (13/2018) informed banks that at the beginning period for applying ECL (1st January, 2018) to transfer GP account from equity to retained earnings then to ECL provisions (stage 1) in the SFP and if there any shortage; it will be covered from retained earnings. However, if there any surplus; it will be in retained earnings (restricted). As a result, the expected effect from applying ECL model will be less than expected (increase provisions) in others country.

Due to different between PMA and JCB in the treatment of GP and SP for regulatory purposes (as seen in the above paragraphs), The PMA treat Jordanian banks that operate in Palestine as a branches as (standalone banks) that operate separately from their parents in Jordan.



2.8 Difficulties in implementing of IFRS 9 by banks

The banks will use their business model and the cash flow characteristics of each financial instrument in order to classify and measure the financial assets and liabilities. Moreover, classification and measurements of the banks' financial instruments will require bank management to use their professional judgment when assessing the bank business model. However, this assessment is not determined by one factor or event; which is a challenge to the bank's managements.

In terms of business model assessment, another challenge mentioned by banks which is the clarification of the concept of 'infrequent and insignificant sales' in IFRS 9 to classify and measure of assets in an appropriate way (EBA, 2016, p.18).

In addition, more than one business model may be used by one entity for managing its financial instruments, which may result in a different classification for similar financial instrument. Therefore, management need to deeply analyse of which business model should use for similar assets.

SPPI test on the principal amount outstanding include testing if interest provides consideration for only the passage of time. In order to assess this

consideration, the entity should apply judgment and take all relevant factors into consideration; which is also a challenge to the bank's managements.

Another challenge that face managements when dealing with financial liability under IFRS 9 is the own credit risk. banks need to determine the changes in fair value of the financial liability as a whole, and then determine the changes that are attributable to changes in their own credit status; then recorded it in OCI, while the remaining fair value changes will be record in profit or loss (BDO, 2016, p.29).

The entity should reclassify financial assets when, and only when, an entity changes its business model for managing financial assets, which require entity to continue monitoring of their business model after they determined it.

The new ECL model based on forward looking information to address any changes in fair value of financial instruments instead of incurred loss model. Applying the new impairment model will made banks faced by many challenges.

The most important challenges in the implementation of ECL is the availability of data and the availability of resources. The new ECL approach requires both new data attributes and large amounts of data that have not historically been source for accounting and risk purposes (Capgemini, 2016, p.7; Đurović, 2018, p.209).In terms of data availability, the main issue is the availability of historical data for IFRS 9 purposes **and**

for determining the credit risk (the PD or rating). The consideration of forward looking information is another a challenge in terms of data availability under IFRS 9. The availability of resources, specially, internal resources and finding enough resources with the right skills are the major challenges (EBA, 2016, p.21). The high data requirements for IFRS 9 encourage the harmonization of finance and risk data (Capgemini, 2016, p.7).

According to IFRS9, banks can implement impairment model based on collective or individual basis. In collective basis assessment, the entity can collect to gather the financial instruments that have the same credit risk characteristics to determine when credit risk increases significantly. However, this collection may change over time due to change in information; which increase the challenges to continue monitoring on on-going bases (Bao et al, 2015, p.3).

Most banks are considering to apply the 30 days past due criterion as indicator of a significant increase in credit risk for classifying an assets from stage 1 to 2. In other words, still using past due states to increase provision.

According to BCBS (2016), banks that use Internal Rating Based (IRB) approach to calculate RWA under Basel (II & III) for calculation of CAR generally believe that existing processes, systems, models and data are likely to be in place and can be used - possibly after adjustment - for the

purposes of IFRS 9 application. However, Banks that use the SA only may not have such capabilities in place (EBA, 2016, p.21).

According to the PMA and JCB instructions, all the banks that operate in Palestine and Jordan should use SA to calculate RWA under Basel II. Therefore, these banks faced with a major challenge to modified existing processes, systems, models, data collection and existing credit risk management practices in light of the application of IFRS 9 impairment model (Bao et al, 2015, p. 9).

Almost all banks around the world will use ECL model equal to $PD \times LGD \times EAD$ approach to implement impairment model under IFRS 9 (BCBS, 2017). However, PD built for regulatory purposes cannot be applied directly to ECL impairment calculations under the IFRS 9 new standard, because the regulatory framework requires stressed through the cycle (TTC) probabilities, while IFRS 9 requires point in time (PIT) probabilities that include forward looking information (Conze & Finance, 2015, p.1). Therefore, banks that used IRB approach (or planning to use it) need to adjust IRB-PD to be use in ECL calculation.

Implementing IFRS 9 by banks expected to have a huge impacts related to changes in information technology (IT) and risk management systems (ESMA, 2016, p.2; PWC, 2014). In term of IT, systems have to be adjust and expand to include new data feeds and data attributes ensuring an IFRS 9 compliant ECL calculation. In term of risk management systems, various

processes, e.g. risk assessment, postings and local solutions have to be revised or changed (Gea-Carrasco, 2015, p.1).

In addition, the definition of governance aspects such as control framework, roles and responsibilities as well as organizational design must be able to identify potential amendments during the implementation process (Capgemini, 2016, p.8).

Impairments under IFRS 9 do not simply result from a mechanistic application of accounting standards. Rather, they are the result of complex decision processes structured by the requirements of standards but also influenced by the interests and incentives of those who make the decisions (European Parliament, 2015, p.9). As a result, applying IFRS 9 by banks, spicily impairment requirement, require an involvement from different internal departments (such as, accounting, finance, IT, internal audit, risk department) with different management levels and external parties such as, external auditor (EBA, 2016, p.15; Gea-Carrasco, 2015, p.1).

Many relevant disclosures about management judgments, estimates and assumptions should be disclose in order to enable users to evaluate the company credit risks (ESMA, 2016, p.4).Financial institutions must implement robust processes including a flexible control framework in order to fulfil the new disclosure requirements (Capgemini, 2016, p.8).

2.9 Research Hypotheses

2.9.1 Introduction

This study intends to explore the impact of adoption of IFRS 9 on the related financial statements for Palestinian & Jordanian banks. The researcher divided this study into two main parts. While the first part explains the effect of applying the phase I of the standard, the second part of the study tries to explain the expected effect from applying phase II of the standard and the difficulties in applying the standard.

2.9.2 Hypotheses

Based on the above we will test the following hypotheses:

2.9.2.1 Part one of the study:

H0: There is no effect from applying phase I of IFRS 9 “classification and measurement” on comprehensive income, owners' equity statements in the banks that operate in Palestine and Jordan.

2.9.2.2 Part two of the study:

H1: There is an effect from applying phase II of IFRS 9 “new impairment model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan.

H2: There are difficulties associated with the implementing of IFRS 9 by the banks that operate in Palestine and Jordan.

Chapter Three

Research Methodology

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Research Methodology

3.1 Introduction

This study intends to address the impact of adoption IFRS 9 on the related financial statements for the banks that operate in Palestine and Jordan. In fact, it seeks to find out the impact of applying phase I of the standard using a quantitative approach from one hand. From the other hand, the expected effects from applying phase II of the standard are explored. Furthermore, the difficulties associated with applying the standard are surveyed using a qualitative approach. This chapter (which include 5 sections) provides an explanation of the research methodology. The second section highlights the research approach. The third section discusses the study population and sample. The forth section discusses the data of the study. The last section illustrates the statistical methods used to analyse data.

3.2 Research Approach

Based on the nature of the study and the objectives that it seeks to achieve, the researcher has used a quantitative approach (event study) in the first part of the research. The first part aims to address the impact from applying phase I of IFRS 9 on the related financial statements of Palestinian & Jordanian banks, because these banks were already forced to apply these phase in the late of 2011-2012. On the other hand, the

researcher used a qualitative approach (Questionnaire) in the second part of the research to study the expected effect from applying phase II of IFRS 9 and the difficulties in applying the standard, because these banks have not applied the whole requirements of the standard.

3.3 Study population and sample

3.3.1 First Part

The number of banks that were operating in Palestine and Jordan when the phase I of IFRS 9 was adopted (at the end of 2011- 2012) were 31 banks and because the number of these banks are small, the researcher decides to study all banks, in order to achieve valid results. The sample contains of two panels of banks:

- **Panel A**, which consists of all banks that were working in Palestine (16 banks).
- **Panel B**, which consists of all banks that were working in Jordan (15 banks).

Table 8: The research sample for the first part.

Country	Number of banks	The research sample
Palestine	16	16
Jordan	15	15
Total	31	31

3.3.2 Second Part

The number of banks in Palestine and Jordan are 38 banks (14 banks in Palestine and 24 in Jordan). Because the number of banks in these markets are small, the researcher decides to study all banks, in order to achieve valid results.

Table 9: The research sample for the second part.

Country	Number of banks	The research sample
Palestine	14	14
Jordan	24	24
Total	38	38

3.4 Data of the study

3.4.1 First Part

Data has been collected from the first annual reports of the financial statements of banks that operate in Palestine and Jordan produced under phase I of IFRS 9 (2011-2012). Any data was not available in the bank's annual report was treated as zero.

We used the data available in the annual reports of the banks before and after the application of phase I of IFRS 9. We collected comprehensive income number and owners' equity (total owners' equity, revaluation reserves and retained earnings) numbers – for the same year – before and after the implementation of the phase I of IFRS 9; which is the new model for classification and measurement of financial assets and financial liabilities.

3.4.2 Second Part

Primary data has been collected from the banks that operate in Palestine and Jordan using a questioner. The researcher developed a questionnaire (the study tool) for the second part of the study to explain the expected effects from applying phase II of IFRS 9 and the difficulties in applying the standard. The questionnaires were distributed to IFRS 9 steering committee in the banks; which consist of (IT, Accounting and Finance, Internal Audit, Risk and business) department manager by e-mail. The researcher followed the following steps to develop the questionnaire:

1. Review previous studies that are relevant to the subject of the study and take advantage of them in the development of the questionnaire. Such as, Deloitte sixth global IFRS banking survey (2016), Report on results from the EBA impact assessment of IFRS 9 (2016) and EY IFRS 9 impairment banking survey (2017).
2. The researcher consulted with a number of PMA experienced employee (3) in determining the framework of the questionnaire.
3. Determined the main areas of the questionnaire.
4. Determined the main topics within each area of the questionnaire.

The Questionnaire consists of three major sections.

Section I : It represents the personal data of the respondent (Qualification, Specialization and Professional Certificates).

Section II: represents the expected effect from applying phase II of IFRS9 in term of:

A. **Expected effect (Unchanged** –expected effect is zero, **Change** – expected effect (Increase or decrease)).

B. **Percentages** of expected effect.

The gradient (0 and 1) has been used to measure the responses of the respondents to the second section of the questionnaire by paragraphs, as follow:

Table 10: Measurements of the second section of the questionnaire.

Expected effect from applying phase II of IFRS 9	Un-changed	Change				
		Increase			Decrease	
Scale of expected effect (change or not)	0	1			1	
Scale of percentages of expected effect		0-5	6-10	11-15	16-20	>20

The researcher chooses the gradient (0 and 1) to respond. The answer (0) means that the respondents expected that applying phase II of IFRS 9 would have no effect on the measured items. On the other hand, the answer (1) means that the respondents expected that applying phase II of IFRS 9 would have effect on the measured items. Then, the expected percentages of this expected effect is determined.

Section III: represents the difficulties in implementing the requirements of IFRS 9; which include main four areas:

1. Classification & Measurements; which have 2 main areas of difficulties (6 paragraphs).
2. New impairment model (ECL); which have 5 main areas of difficulties (13 paragraphs).
3. Over all challenges in implementing IFRS 9; which have 2 main areas of difficulties (7 paragraphs).

The gradient (1-5) has used to measure the responses of the respondents to the questionnaire by paragraphs, as follow:

Table 11: Measurements of the third section of the questionnaire.

Level	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Scale	5	4	3	2	1

The researcher chooses the gradient (1-5) to respond and the closer the answer of (5) indicated strongly agree on what is state in each paragraph is a difficulty in implementing IFRS 9 requirements.

The last question of the questioner describes the ECL model development to deliver IFRS 9 requirements.

3.5 Statistical methods used to analysis data

In general, the aim of this study is to explain the impact from adoption of IFRS 9 on the related financial statements for Palestinian & Jordanian banks. The data needed was obtained and analysed to meet the research objectives. The selection of data analysis based on varied portions, such as, the type and the nature of the variables and the research design. The

researcher used descriptive statistic to convert the data collected in a way that enable researcher to test it. The following techniques have been used:

3.5.1 First Part

The first part of this study addresses the impact of applying the phase I of IFRS 9 “classification and measurement” on comprehensive income, owners' equity statements in the banks that operate in Palestine and Jordan.

The empirical analysis in this part is based upon a measure known as the **Index of Comparability (IC)**. This metric, which is used to quantify the difference between GAAP and IFRS, was used by Connell & Sullivan paper in 2008. This indicator works by comparing the account value (such as, net income, owners' equity, etc.) before and after implementing a new standard, and then it divided it by the account value before the implementation of that standard. The resulted number from that calculation if exceed 1 means that a major difference from the implementation exists.

However, because this paper analyse **only** the effect of applying phase I of IFRS 9 (part of the standard, not the whole standard) by banks which applied IAS 39 standard, we use **Paired Samples Test**. This measure is used to quantify the difference between the values of variable in two different times, **as follows**:

1. To test the effect on comprehensive income; we compare comprehensive income before IFRS 9 and comprehensive income after IFRS 9 for the same year.

2. To test the effect on owners' equity; we compare owners' equity before IFRS 9 and owners' equity after IFRS 9 for the same year.

- **Comprehensive income before IFRS 9**, is the comprehensive income of the banks that operate in Palestine and Jordan where phase I of IFRS 9 was not applied.
- **Comprehensive income after IFRS 9**, is the comprehensive income of the banks that operate in Palestine and Jordan where phase I of IFRS 9 was applied.
- **Owners' Equity before IFRS 9**, is the owners' equity of the banks that operate in Palestine and Jordan where phase I of IFRS 9 was not applied.
- **Owners' Equity after IFRS 9**, is the owners' equity of the banks that operate in Palestine and Jordan where phase I of IFRS 9 was applied.

3.5.2 Second Part

The second part of this study explains the expected effect from applying phase II of IFRS 9 “new impairment model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan. In addition, it explains the difficulties of implementing IFRS 9 by the banks that operate in Palestine and Jordan.

To achieve the goal of the second part of the study, the researcher would utilize the following statistical tools:

1. Frequency and Descriptive analysis.
2. One-Sample Binominal Test.
3. One sample test.

Chapter Four

Results and Discussion

Chapter Four

Results and Discussion

4.1 Introduction

This chapter contains analysis results of the data and hypothesis's test. The structure of this chapter as follows: the second section reports the descriptive statistics for the variables. The third section explains the hypotheses test.

4.2 Descriptive statistics of variables

In order to describe the variables of the study statistically, the mean, standard deviation and frequencies were calculated.

4.2.1 First Part

Panel A – Palestinian banks

The mean of owners' equity before and after applying phase I of IFRS 9 for panel A (all of banks that work in Palestine) equal to 6,347 million dollars and the standard deviation equal to 130,638 dollars.

Moreover, when we analyse the effect based on each account within owners' equity statement, we found that:

- **Revaluation reserves:** the mean of revaluation reserves before and after applying phase I of IFRS 9 for panel A equals to 382,573 million dollars and the standard deviation equals to 868,281 dollars.
- **Retained earnings:** the mean of retained earnings before and after applying phase I of IFRS 9 for panel A equals to -328,455 million dollars (losses) and the standard deviation equals to 736,418 dollars.

Panel B – Jordanian banks

The mean of owners' equity before and after applying phase I of IFRS 9 for panel B (All Jordanian banks) equals to 9,765,227 million dollars and the standard deviation equals to 35,755 dollars.

Moreover, when we analyse the effect based on each account within owners' equity statement, we found that:

- **Revaluation reserves:** the mean of revaluation reserves before and after applying phase I of IFRS 9 for panel B equals to 1,407,550 million dollars and the standard deviation equals to 19,187 dollars.
- **Retained earnings:** the mean of retained earnings before and after applying phase I of IFRS 9 for panel B equals to 8,357,676 million dollars and the standard deviation equals to 54,054 dollars.

Table 12: Descriptive statistics - First part.

Country		Mean (Million)	Std Deviation
Palestine	Pair 1 Owner before - Owner After	6,347	130,638
Panel A	Pair 2 revaluation before - revaluation after	382,573	868,281
	Pair 3 Retained before - Retained After	-328,455	736,418
Jordan	Pair 1 Owner before - Owner After	9,765,227	35,755
Panel B	Pair 2 revaluation before - revaluation after	1,407,550	19,187
	Pair 3 Retained before - Retained After	8,357,676	54,054

4.2.2 Second Part

The statistical description of the second part of the study sample according to the responses:

Table 13: Questionnaire respondents.

Palestine	Frequency	Percentage
Complete questionnaires	14	100%
Missing questionnaires (not answered)	0	0%
Total	14	100%
Jordan	Frequency	Percentage
Complete questionnaires	21	87.5%
Missing questionnaires (not answered)	3	12.5%
Total	24	100%

As seen in the table (13), the researcher distributes 14 questioners on the sample A (Palestinian banks), all of them (100%) were retrieved and analysed. In addition, the researcher distribute 24 questioners on the sample B (Jordanian banks), 87.5% of them were completed and analysed. However, 12.5% of those questioners were missing.

4.2.2.1 The characteristics of the study sample according to personal data:

A. Respondent personal information – Qualifications: from table (14) the researcher found that:

For Palestinian banks: 57.1% of respondents hold a bachelor degree, while the remaining (42.9%) hold a master degree.

For Jordanian banks: 66.7% of respondent hold a bachelor degree, 28.6% of respondent hold a master degree, while the remaining (4.8%) hold a Ph.D.

Table 14: Respondent personal information - Qualifications.

Qualifications			
Country		Frequency	Percentage
Palestine	Bachelor	8	57.1%
	Master Degree	6	42.9%
	Total	14	100.0%
Jordan	Bachelor	14	66.7%
	Master Degree	6	28.6%
	Others	1	4.8%
	Total	21	100.0%

B. Respondent personal information – Specialization: from table (15) the researcher found that:

For Palestinian banks: 64.3% of respondent hold an accounting degree, 7.1% hold a banking and financial science degree, while the remaining (28.6%) hold an administration degree.

For Jordanian banks: 52.4% of respondent hold a banking and financial sciences degree, 23.8% hold an accounting degree, 14.3% hold an administration degree, while the remaining (4.8%) hold an economic degree.

Table 15: Respondent personal information - Specialization.

Specialization			
Country		Frequency	Percentage
Palestine	Accounting	9	64.3%
	Administration	1	7.1%
	Banking and Financial Sciences	4	28.6%
	Total	14	100.0%
Jordan	Accounting	5	23.8%
	Administration	3	14.3%
	Banking and Financial Sciences	11	52.4%
	Economy	1	4.8%
	Others	1	4.8%
	Total	21	100.0%

C. Respondent personal information – Professional Certificates: from table (16) the researcher found that:

For Palestinian banks: 28.6% of respondents hold other professional certificates, 7.1% hold CMA professional certificates, while the remaining (64.3%) don't hold any professional certificate.

For Jordanian banks: 19% of respondents hold other professional certificates, 14.3% hold CMA professional certificates, while the remaining (66.7%) don't hold any professional certificate.

Table 16: Respondent personal information - Professional Certificates.

Professional Certificates			
Country		Frequency	Percentage
Palestine	CPA	1	7.1%
	Others	4	28.6%
	Non	9	64.3%
	Total	14	100.0%
Jordan	CMA	3	14.3%
	Others	4	19.0%
	Non	14	66.7%
	Total	21	100.0%

4.2.2.2 The expected effects from applying the new impairment model (ECL) under IFRS 9

This section aims to measure the expected effects of applying the new impairment model (ECL) under IFRS 9. The expected effects here are measured by seven items. To achieve the objectives of this section, a **binominal scale** is used as follows:

- **0: Unchanged** – No effect.
- **1: Changed**- Increase or Decrease.

A. Palestinian banks

Table 17: Respondent expected effect from applying phase II of IFRS

9 - Palestine.

No.	Item	Expected effect	Frequency	Percentage
1.	Comprehensive income statement (Profit & Loss)	Unchanged	5	35.7%
		Change	9	64.3%
		Total	14	100.0%
2.	Retained Earnings	Unchanged	2	14.3%
		Change	12	85.7%
		Total	14	100.0%
3.	Specific provisions	Unchanged	3	21.4%
		Change	11	78.6%
		Total	14	100.0%
4.	General provisions	Unchanged	3	21.4%
		Change	11	78.6%
		Total	14	100.0%
5.	Total impairment provisions	Unchanged	0	0.0%
		Change	14	100.0%
		Total	14	100.0%
6.	Owners' Equity	Unchanged	0	0.0%
		Change	14	100.0%
		Total	14	100.0%
7.	Capital Adequacy Ratio (CAR)	Unchanged	2	14.3%
		Change	12	85.7%
		Total	14	100.0%

From table (17) the researcher found that the expected effect from applying phase I of IFRS 9 according to **Palestinian banks as follows:**

1. Comprehensive income statement (Profit & Loss): from the above table, the researcher found that 64.3% of respondents expect that applying phase I of IFRS 9 will affect comprehensive income statement (Profit & Loss), while the remaining (35.7%) expect no effect from applying.

2. Retained Earnings: from the above table, the researcher found that 85.7% of respondent expect that applying phase I of IFRS 9 will affect

retained earnings, while the remaining (14.3%) expect no effect from applying.

3. **SP:** from the above table, the researcher found that 78.6% of respondents expect that applying phase I of IFRS 9 will affect SP, while the remaining (21.4%) expect no effect from applying.

4. **GP:** from the above table, the researcher found that 78.6% of respondents expect that applying phase I of IFRS 9 will affect GP, while the remaining (21.4%) expect no effect from applying.

5. **Total impairment provisions:** from the above table, the researcher found that 100% of respondents expect that applying phase I of IFRS 9 will affect total impairment provision.

6. **Owners' Equity:** from the above table, the researcher found that 100% of respondents expect that applying phase I of IFRS 9 will affect Owners' Equity.

7. **CAR:** from the above table, the researcher found that 85.7% of respondent expect that applying phase I of IFRS 9 will affect CAR, while the remaining (14.3%) expect no effect from applying.

Table 18: The direction of respondent expected effect from applying phase II of IFRS 9 - Palestine.

No.	Item	Expected changed		Intervals (%)				
				0-5	6-10	11-15	16-20	>20
1.	Comprehensive income statement (Profit & Loss)	Increase	Frequency	---	1	---	---	---
			Percentage	---	7.1	---	---	---
		Decrease	Frequency	5	2	---	---	1
			Percentage	35.7	14.3	---	---	7.1
2.	Retained Earning	Increase	Frequency	---	---	1	---	---
			Percentage	---	---	7.1	---	---
		Decrease	Frequency	8	1	---	---	2
			Percentage	57.1	7.1	---	---	14.3
3.	Specific provision	Increase	Frequency	2	4	1	---	3
			Percentage	14.3	28.6	7.1	---	21.4
		Decrease	Frequency	1	---	---	---	---
			Percentage	7.1	---	---	---	---
4.	General provisions	Increase	Frequency	1	---	---	---	3
			Percentage	7.1	---	---	---	21.4
		Decrease	Frequency	3	1	1	---	2
			Percentage	21.4	7.1	7.1	---	14.3
5.	Total impairment provision	Increase	Frequency	4	4	1	---	4
			Percentage	28.6	28.6	7.1	---	28.6
		Decrease	Frequency	1	---	---	---	---
			Percentage	7.1	---	---	---	---
6.	Owners' Equity	Increase	Frequency	---	---	---	---	---
			Percentage	---	---	---	---	---

		Decrease	Frequency	8	2	2	---	2
			Percentage	57.1	14.3	14.3	---	14.3
7.	Capital Adequacy Ratio (CAR)	Increase	Frequency	3	1	---	---	---
			Percentage	21.4	7.1	---	---	---
		Decrease	Frequency	6	2	---	---	---
			Percentage	42.9	14.3	---	---	---

- 57.1% of respondent expect that applying phase IFRS 9 will decrease comprehensive income statement (Profit & Loss); while 7.1% expect it will increase it.
- 78.5% of respondent expect that applying phase IFRS 9 will decrease retained earnings; while 7.1% expect it will increase it.
- 71.4% of respondent expect that applying phase IFRS 9 will increase SP; while 7.1% expect it will decrease it.
- 49.9% of respondent expect that applying phase IFRS 9 will decrease GP; while 28.5% expect it will increase it.
- 92.2% of respondent expect that applying phase IFRS 9 will increase total impairment provision; while 7.1% expect it will decrease it.
- 100% of respondent expect that applying phase IFRS 9 will decrease owners' equity.
- 57.2% of respondent expect that applying phase IFRS 9 will decrease CAR; while 28.5% expect it will increase it.

B. Jordanian banks

Table 19: Respondent expected effect from applying phase II of IFRS

9 - Jordan.

No.	Item	Expected effect	Frequency	Percentage
1.	Comprehensive income statement (Profit & Loss)	Unchanged	6	28.6%
		Change	15	71.4%
		Total	21	100.0%
2.	Retained Earnings	Unchanged	1	4.8%
		Change	20	95.2%
		Total	21	100.0%
3.	Specific provisions	Unchanged	7	33.3%
		Change	14	66.7%
		Total	21	100.0%
4.	General provisions	Unchanged	6	28.6%
		Change	15	71.4%
		Total	21	100.0%
5.	Total impairment provisions	Unchanged	1	4.8%
		Change	20	95.2%
		Total	21	100.0%
6.	Owners' Equity	Unchanged	0	0%
		Change	21	100.0%
		Total	21	100.0%
7.	Capital Adequacy Ratio (CAR)	Unchanged	4	19.0%
		Change	17	81.0%
		Total	21	100.0%

From table (19) the researcher found that the expected effect from applying phase I of IFRS 9 according to **Jordanian banks as follows:**

1. Comprehensive income statement (Profit & Loss): from the above table, the researcher found that 71.4% of respondents expect that applying phase I of IFRS 9 will affect comprehensive income statement (Profit & Loss), while the remaining (28.6%) expect no effect from applying.

2. Retained Earnings: from the above table, the researcher found that 95.2% of respondents expect that applying phase I of IFRS 9 will affect

retained earnings, while the remaining (4.8%) expect no effect from applying.

3. **SP:** from the above table, the researcher found that 66.7% of respondents expect that applying phase I of IFRS 9 will affect SP, while the remaining (33.3%) expect no effect from applying.

4. **GP:** from the above table, the researcher found that 71.4% of respondents expect that applying phase I of IFRS 9 will affect GP, while the remaining (28.6%) expect no effect from applying.

5. **Total impairment provisions:** from the above table, the researcher found that 95.2% of respondents expect that applying phase I of IFRS 9 will affect total impairment provision, while the remaining (4.8%) expect no effect from applying.

6. **Owners' Equity:** from the above table, the researcher found that 100% of respondents expect that applying phase I of IFRS 9 will affect Owners' Equity.

7. **CAR:** from the above table, the researcher found that 81% of respondents expect that applying phase I of IFRS 9 will affect CAR, while the remaining (19%) expect no effect from applying.

Table 20: The direction of respondent expected effect from applying phase I of IFRS 9 - Jordan.

No.	Item	Expected changed		Intervals (%)				
				0-5	6-10	11-15	16-20	>20
1.	Comprehensive income statement (Profit & Loss)	Increase	Frequency	---	---	---	---	1
			Percentage	---	---	---	---	4.8
		Decrease	Frequency	10	4	---	---	---
			Percentage	47.6	19	---	---	---
2.	Retained Earnings	Increase	Frequency	1	---	---	---	---
			Percentage	4.8	---	---	---	---
		Decrease	Frequency	11	5	1	---	2
			Percentage	52.4	23.8	4.8	---	9.5
3.	Specific provisions	Increase	Frequency	3	4	3	1	3
			Percentage	14.3	19	14.3	4.8	14.3
		Decrease	Frequency	---	---	---	---	---
			Percentage	---	---	---	---	---
4.	General provisions	Increase	Frequency	2	1	2	1	1
			Percentage	9.5	4.8	9.5	4.8	4.8
		Decrease	Frequency	4	---	---	---	4
			Percentage	19	---	---	---	19
5.	Total impairment provisions	Increase	Frequency	8	5	1	2	3
			Percentage	38.1	23.8	4.8	9.5	14.3
		Decrease	Frequency	---	1	---	---	---
			Percentage	---	4.8	---	---	---
6.	Owners' Equity	Increase	Frequency	---	---	---	---	---
			Percentage	---	---	---	---	---

		Decrease	Frequency	20	1	---	---	---
			Percentage	95.2	4.8	---	---	---
7.	Capital Adequacy Ratio (CAR)	Increase	Frequency	1	---	---	---	---
			Percentage	4.8	---	---	---	---
		Decrease	Frequency	16	---	---	---	---
			Percentage	76.2	---	---	---	---

- 66.6% of respondent expect that applying phase IFRS 9 will decrease comprehensive income statement (Profit & Loss); while 4.8% expect it will increase it.
- 90.5% of respondent expect that applying phase IFRS 9 will decrease retained earnings; while 4.8% expect it will increase it.
- 66.7% of respondent expect that applying phase IFRS 9 will increase SP.
- 38% of respondent expect that applying phase IFRS 9 will decrease GP; while 33.4% expect it will increase it.
- 90.5% of respondent expect that applying phase IFRS 9 will increase total impairment provisions; while 4.8% expect it will decrease it.
- 100% of respondent expect that applying phase IFRS 9 will decrease owners' equity.
- 76.2% of respondent expect that applying phase IFRS 9 will decrease CAR; while 4.8% expect it will increase it.

4.2.2.3 The obstacles (difficulties) of applying the IFRS 9 requirements:

This section aims to measure the obstacles (difficulties) of applying the IFRS 9 requirements. To achieve the objectives of this section, a five-points **Likert scale** are used as follows:

1. Strongly disagree.
2. Disagree.
3. Neutral.
4. Agree.
5. Strongly agree.

Table (21) shows the scale of agreement in respondent answers if the paragraph of the questioners represent difficulties in implementing IFRS 9 requirements in terms of frequency, mean, which is classify into five degrees that are related to five intervals as shown in the following table:

Table 21: Scaling Degrees.

Interval	Degree
1.00 - 1.79	Strongly disagree
1.8 - 2.59	Disagree
2.6 - 3.39	Neutral
3.4 - 4.19	Agree
4.2 - 5	Strongly agree

Table 22: Difficulties in implementing Business model under IFRS 9.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
A.	Business model									
1	Using judgment by bank management when assessing its business model for managing financial assets.	Pal.	35.7	64.3	0.0	0.0	0.0	4.36	0.497	Strongly agree
		Jor.	9.5	52.4	14.3	23.8	0.0	3.48	0.981	Agree
2	Clarification of the concept of ‘infrequent and insignificant sales’ when assessing business model for managing financial assets.	Pal.	0.0	78.6	14.3	7.1	0.0	3.71	0.611	Agree
		Jor.	0.0	47.6	28.6	23.8	0.0	3.24	0.831	Neutral
3	Adopting more than one business model by bank for managing financial instruments.	Pal.	7.1	57.1	21.4	14.3	0.0	3.79	0.975	Agree
		Jor.	9.5	42.9	28.6	19.0	0.0	3.10	1044	Neutral
4	Determined when the bank should changes its business model for managing financial assets.	Pal.	7.1	57.1	28.6	7.1	0.0	3.64	0.745	Agree
		Jor.	4.8	38.1	38.1	19.0	0.0	3.29	0.845	Neutral

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (1) has a mean equals to 4.36; which means that respondents *strongly agree* that item (1) is a difficulty in assessing the business model under IFRS 9.
- Item (2) has a mean equals to 3.71, which means that respondents *agree* that item (2) is a difficulty in assessing the business model under IFRS 9.
- Item (3) has a mean equals to 3.79, which means that respondents *agree* that item (3) is a difficulty in assessing the business model under IFRS 9.

- Item (4) has a mean equals to 3.64, which means that respondents *agree* that item (4) is a difficulty in assessing the business model under IFRS 9.

B.Jordanian banks:

- Item (1) has a mean equals to 3.48, which means that respondents *agree* that item (1) is a difficulty in assessing the business model under IFRS 9.
- Item (2) has a mean equals to 3.24, which means that respondents *neutral* that item (2) is not a difficulty in assessing the business model under IFRS 9.
- Item (3) has a mean equals to 3.10, which means that respondents *neutral* that item (3) is not a difficulty in assessing the business model under IFRS 9.
- Item (4) has a mean equals to 3.29, which means that respondent *neutral* that item (4) is not a difficulty in assessing the business model under IFRS 9.

Table 23: Difficulties in implementing solely payments of principal & interest under IFRS 9.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
B.	Solely payments of principal and interest (SPPI)									
5	Using judgment by bank management when assessing whether the element provides consideration for only the passage of time .	Pal.	7.1	57.1	21.4	14.3	0.0	3.57	0.852	Agree
		Jor.	9.5	42.9	28.6	19.0	0.0	3.43	0.926	Agree
6	Determine if the change in fair value of the financial liability is attributable to changes in their own credit status or not.	Pal.	7.1	78.6	7.1	7.1	0.0	3.86	0.663	Agree
		Jor.	0.0	47.6	42.9	9.5	0.0	3.38	0.669	Neutral

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (5) has a mean equals to 3.57, which means that respondents *agree* that item (5) is a difficulty in assessing the business model under IFRS 9.
- Item (6) has a mean equals to 3.86, which means that respondent *agree* that item (6) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (5) has a mean equals to 3.43, which means that respondents *agree* that item (5) is a difficulty in assessing the business model under IFRS 9.
- Item (6) has a mean equals to 3.38, which means that respondents *neutral* that item (6) is not a difficulty in assessing the business model under IFRS 9.

Table 24: Difficulties in preparing information for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
C.	Information for IFRS 9 purposes									
7	The lack (or the inability to capture) of reasonable and supportable historical information for IFRS 9 purposes.	Pal.	21.4	21.4	14.3	42.9	0.0	3.21	1.251	Neutral
		Jor.	33.3	19.0	9.5	38.1	0.0	3.48	1.327	Agree
8	The lack (or the inability to capture) of reasonable and supportable information about current conditions for IFRS 9 purposes.	Pal.	14.3	35.7	0.0	50.0	0.0	3.14	1.231	Neutral
		Jor.	9.5	33.3	14.3	42.9	0.0	3.10	1.091	Neutral
9	The lack (or the inability to capture) of reasonable and supportable information about forecasts of future economic conditions for IFRS 9 purposes.	Pal.	21.4	35.7	21.4	21.4	0.0	3.57	1.089	Agree
		Jor.	23.8	23.8	19.0	23.8	9.5	3.29	1.347	Neutral
10	Adjust historical data on the basis of current observable data to reflect the effects of the current and forecasts of future conditions to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows.	Pal.	7.1	42.9	21.4	28.6	0.0	3.29	0.994	Neutral
		Jor.	14.3	38.1	28.6	14.3	4.8	3.43	1.076	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (7) has a mean equals to 3.21, which means that respondents *neutral* that item (7) is a not difficulty in assessing the business model under IFRS 9.
- Item (8) has a mean equals to 3.14, which means that respondent *neutral* that item (8) is not a difficulty in assessing the business model under IFRS 9.

- Item (9) has a mean equals to 3.57, which means that respondents *agree* that item (9) is a difficulty in assessing the business model under IFRS 9.
- Item (10) has a mean equals to 3.29; which means that respondent *neutral* that item (10) is not a difficulty in assessing the business model under IFRS 9.

B.Jordanian banks:

- Item (7) has a mean equals to 3.48, which means that respondents *agree* that item (7) is a difficulty in assessing the business model under IFRS 9.
- Item (8) has a mean equals to 3.10, which means that respondents *neutral* that item (8) is not a difficulty in assessing the business model under IFRS 9.
- Item (9) has a mean equals to 3.29, which means that respondents *neutral* that item (9) is not a difficulty in assessing the business model under IFRS 9.
- Item (10) has a mean equals to 3.43, which means that respondents *agree* that item (10) is a difficulty in assessing the business model under IFRS 9.

Table 25: Difficulties in the availability of resources for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
D.	Availability of resources									
11	Enough technical resources required to implement IFRS 9 are unavailable in your bank? If ‘agree’, answer next question	Pal.	14.3	28.6	7.1	42.9	7.1	3.00	1.301	Neutral
		Jor.	14.3	28.6	0.0	52.4	4.8	2.95	1.284	Neutral
12	In the case of any internal resource shortfall, outsourcing is not accessible.	Pal.	0.0	28.6	7.1	14.3	0.0	3.29	0.951	Neutral
		Jor.	4.8	28.6	9.5	14.3	0.0	3.42	0.996	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (11) has a mean equals to 3.00, which means that respondents *neutral* that item (11) is not a difficulty in assessing the business model under IFRS 9.
- Item (12) has a mean equals to 3.29, which means that respondents *neutral* that item (12) is not a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (11) has a mean equals to 2.95, which means that respondent *neutral* that item (11) is not a difficulty in assessing the business model under IFRS 9.

- Item (12) has a mean equal to 3.42, which mean that respondent *agree* that item (12) is a difficulty in assessing the business model under IFRS 9.

Table 26: Difficulties in determined significant increases in credit risk for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
E.	Significant increases in credit risk (Movement between stages)									
13	The interpretation and application of IFRS 9 requirement to determine the significant increases in credit risk.	Pal.	14.3	78.6	0.0	7.1	0.0	4.00	0.679	Agree
		Jor.	14.3	47.6	9.5	23.8	4.8	3.43	1.165	Agree
14	Using internal credit risk ratings to determine if the financial instruments have a low credit risk.	Pal.	21.4	57.1	14.3	7.1	0.0	3.93	0.829	Agree
		Jor.	4.8	66.7	4.8	14.3	9.5	3.43	1.121	Agree
15	Using external ratings developed by rating agencies, such as S & P, Moody's, etc. to determine if the financial instruments have a low credit risk.	Pal.	21.4	57.1	14.3	0.0	7.1	3.71	1.204	Agree
		Jor.	9.5	52.4	14.3	14.3	9.5	3.38	1.161	Neutral

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (13) has a mean equals to 4.00, which means that respondents *agree that* item (13) is a difficulty in assessing the business model under IFRS 9.
- Item (14) has a mean equals to 3.93, which means that respondents *agree* that item (14) is a difficulty in assessing the business model under IFRS 9.

- Item (15) has a mean equals to 3.71, which means that respondents *agree* that item (15) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (13) has a mean equal to 3.43, which mean that respondent *agree* that item (13) is a difficulty in assessing the business model under IFRS 9.
- Item (14) has a mean equals to 3.43, which means that respondents *agree* that item (14) is a difficulty in assessing the business model under IFRS 9.
- Item (15) has a mean equals to 3.38, which means that respondents *neutral* that item (15) is not a difficulty in assessing the business model under IFRS 9.

Table 27: Difficulties in collective assessment basis under IFRS 9.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
F.	Collective assessment basis									
16	The aggregation of financial instruments into a group based on shared credit risk characteristics .	Pal.	7.1	71.4	14.3	7.1	0.0	3.79	0.699	Agree
		Jor.	9.5	47.6	23.8	14.3	4.8	3.43	1.028	Agree
17	Continue monitoring - on ongoing bases – of the shared credit risk characteristics of financial instruments group, to identify significant increases in credit on a timely basis.	Pal.	28.6	57.1	7.1	7.1	0.0	4.07	0.829	Agree
		Jor.	9.5	52.4	28.6	4.8	4.8	3.57	0.926	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (16) has a mean equals to 3.79, which means that respondents *agree that* item (16) is a difficulty in assessing the business model under IFRS 9.
- Item (17) has a mean equals to 3.43, which means that respondents *agree that* item (17) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (16) has a mean equals to 3.79, which means that respondents *agree that* item (16) is a difficulty in assessing the business model under IFRS 9.
- Item (17) has a mean equals to 3.43, which means that respondents *agree that* item (17) is a difficulty in assessing the business model under IFRS 9.

Table 28: Difficulties in applying the processes, systems, models, data collection and risk management practices for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
G.	Processes, systems, models, data collection and risk management practices									
18	Modifying existing processes, systems, models, data collection to implement ECL model	Pal.	35.7	50.0	0.0	14.3	0.0	4.07	0.997	Agree
		Jor.	28.6	61.9	0.0	9.5	0.0	4.10	0.831	Agree
19	Modifying existing credit risk management practices to implement ECL model.	Pal.	35.7	35.7	14.3	14.3	0.0	3.93	1.072	Agree
		Jor.	19.0	61.9	9.5	9.5	0.0	3.90	0.831	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (18) has a mean equals to 4.07, which means that respondents *agree* that item (18) is a difficulty in assessing the business model under IFRS 9.
- Item (19) has a mean equals to 4.10, which means that respondents *agree* that item (19) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (18) has a mean equals to 3.93, which means that respondents *agree* that item (18) is a difficulty in assessing the business model under IFRS 9.

- Item (19) has a mean equals to 3.90, which means that respondents *agree* that item (19) is a difficulty in assessing the business model under IFRS 9.

Table 29: Difficulties in governance and internal controls for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
H.	Governance and internal controls									
20	Modifying existing internal control framework, roles and responsibilities as well as organizational design for IFRS 9 purposes.	Pal.	28.6	57.1	7.1	7.1	0.0	4.07	0.829	Agree
		Jor.	28.6	47.6	9.5	14.3	0.0	3.90	0.995	Agree
21	Coordination across functions (Finance, Risk, IT, Internal audit and the Business) for IFRS 9 purposes.	Pal.	50.0	42.9	0.0	0.0	7.1	4.29	1.069	Strongly agree
		Jor.	42.9	38.1	0.0	19.0	0.0	4.05	1.117	Agree
22	Determine the responsibility for each functions (Finance, Risk, IT, Internal audit and the Business) in implementing IFRS 9.	Pal.	42.9	42.9	7.1	0.0	7.1	4.14	1.099	Agree
		Jor.	33.3	52.4	4.8	9.5	0.0	4.10	0.889	Agree

According to the table above, the respondent answers as follow:

A.Palestinian banks:

- Item (20) has a mean equals to 4.07, which means that respondents *agree* that item (20) is a difficulty in assessing the business model under IFRS 9.
- Item (21) has a mean equals to 4.29, which means that respondents *strongly agree* that item (21) is a difficulty in assessing the business model under IFRS 9.

- Item (22) has a mean equals to 4.14, which means that respondents *agree* that item (22) is a difficulty in assessing the business model under IFRS 9.

B.Jordanian banks:

- Item (20) has a mean equals to 3.90, which means that respondents *agree* that item (20) is a difficulty in assessing the business model under IFRS 9.
- Item (21) has a mean equals to 4.05, which means that respondents *agree* that item (21) is a difficulty in assessing the business model under IFRS 9.
- Item (22) has a mean equals to 4.10, which means that respondents *agree* that item (22) is a difficulty in assessing the business model under IFRS 9.

Table 30: Difficulties in disclosures for IFRS 9 purposes.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
I.	Disclosures									
23	Provide disclosures about management judgments, estimates and assumptions.	Pal.	21.4	64.3	0.0	7.1	7.1	3.86	1.099	Agree
		Jor.	23.8	47.6	9.5	14.3	4.8	3.71	1.146	Agree
24	Implement robust processes including a flexible control framework in order to fulfill the new disclosure requirements for IFRS 9.	Pal.	14.3	78.6	0.0	7.1	0.0	4.00	0.679	Agree
		Jor.	19.0	52.4	14.3	9.5	4.8	3.71	1.056	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (23) has a mean equals to 3.86, which means that respondents *agree* that item (23) is a difficulty in assessing business model under IFRS 9.
- Item (24) has a mean equals to 4.00, which means that respondents *agree* that item (24) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (23) has a mean equals to 3.71, which means that respondents *agree* that item (23) is a difficulty in assessing the business model under IFRS 9.
- Item (24) has a mean equal to 3.71, which means that respondents *agree* that item (24) is a difficulty in assessing the business model under IFRS 9.

Table 31: Difficulties in the term of costs of implementing IFRS.

No.	Paragraph	Country	Percent of Frequency					Mean	SD	Level of Agreement
			Strongly agree	Agree	Neutral	Disagree	Strongly disagree			
J.	Cost									
25	The costs of implementing IFRS 9 (more complex IT systems, more data, and complex calculations at each reporting	Pal.	28.6	21.4	35.7	14.3	0.0	3.64	1.082	Agree
		Jor.	14.3	23.8	33.3	28.6	0.0	3.24	1.044	Neutral
26	Preparing and qualifying the individuals and teams in the bank for applying IFRS 9.	Pal.	35.7	57.1	0.0	7.1	0.0	4.21	0.802	Strongly agree
		Jor.	33.3	42.9	19.0	4.8	0.0	4.05	0.865	Agree

According to the table above, the respondent answers as follow:

A. Palestinian banks:

- Item (25) has a mean equals to 3.64, which means that respondents *agree* that item (25) is a difficulty in assessing the business model under IFRS 9.
- Item (26) has a mean equals to 4.21, which means that respondents *strongly agree* that item (26) is a difficulty in assessing the business model under IFRS 9.

B. Jordanian banks:

- Item (25) has a mean equals to 3.24, which means that respondents *neutral* that item (25) is not a difficulty in assessing the business model under IFRS 9.
- Item (26) has a mean equals to 4.05, which means that respondents *agree* that item (26) is a difficulty in assessing the business model under IFRS 9.

Table 32: ECL model development to deliver IFRS 9.

The ECL model development to deliver IFRS 9	Palestine		Jordan	
	Freq.	Per.	Freq.	Per.
Leverage existing models used for Basel purposes (e.g. regulatory capital, economic capital, stress testing)	1	7.1	3	14.3
Leverage existing models used for internal rating models	3	21.4	3	14.3
Build new models for IFRS 9 purposes only	9	64.3	15	71.4
Other	1	7.1		
Total	14	100	21	100

- **Palestinian banks:** according to the table above, 64.3% of the respondents will build new models for IFRS 9 purposes only, 21.4% of the respondent will leverage existing models used for internal rating models, 7.1% of the respondent will Leverage existing models used for Basel purposes to implement ECL model.
- **Jordanian banks:** according to the table above, 71.4% of the respondent will build new models for IFRS 9 purposes only, 14.3% of the respondent will leverage existing models used for internal rating models, 14.3% of the respondent will Leverage existing models used for Basel purposes to implement ECL model.

4.3 Hypotheses Test

4.3.1 First Part

In the first part of the study, we use **Paired Samples Test** to determine the impact of applying phase I of IFRS 9 "Classification and Measurement" on comprehensive income and owners' equity (total owners' equity, Revaluation reserves and Retained earnings) for the banks that operate in Palestine and Jordan.

Before analysing the results of Paired samples Test of the data, it is important to indicate that applying phase I of IFRS 9 do not have any effect on comprehensive income of the banks that operate in Palestine and Jordan, because all the banks that operate in Palestine and Jordan do not modify the comparative figures for previous periods, as permitted in

accordance with IFRS 9. However, the provided data enable us to further analyse the effect on each account within the owners' equity statements.

Table (29) shows the results of testing the effects of applying phase I of IFRS 9 “classification and measurement” on comprehensive income, owners' equity statements in the banks that operate in Palestine and Jordan. The test is fit and suitable to test the hypothesis. The results of hypotheses testing as follows:

H0: There are no effects from applying phase I of IFRS 9 “classification and measurement” on comprehensive income, owners' equity statements in the banks that operate in Palestine and Jordan.

Table 33: Summary of Statistics –Paired Samples Test.

Paired Samples Test										
Country			Paired Differences					t	df	Sig. (2-tailed)
			Mean	Std. Deviation	Std. Error Mean	of the Difference				
						Lower	Upper			
Palestine	Pair 1	Owner before - Owner after	6,347	130,638	32,659	-63,265	75,959	0.194	15	0.849
	Pair 2	Revaluation before - Revaluation after	382,573	868,281	217,070	-80,101	845,247	1.762	15	0.098
	Pair 3	Retained before - Owner Retained	-328,455	736,418	184,104	-720,864	63,955	-1.784	15	0.950
Jordan	Pair 1	Owner before - Owner after	9,765,227	35,755,624	9,232,062	-10,035,578	29,566,031	1.058	14	0.308
	Pair 2	Revaluation before - Revaluation after	1,407,550	19,187,747	4,954,255	-9,218,270	12,033,371	0.284	14	0.780
	Pair 3	Retained before - Owner Retained	8,357,676	54,054,541	13,956,822	-21,576,730	38,292,083	0.599	14	0.559

Panel A – Palestinian banks

From the table above, the result indicates that applying phase I of IFRS 9 on owners' equity has No effect on owners' equity in Palestinian banks at $\alpha = 0.05$ (Sig. "2-tailed") which equals to 0.849, which is supported by the previous literatures, such as ESMA (2016).

Besides, when we analyse the effect based on each account within owner's equity statement, we found that applying phase I of IFRS 9 affects only two accounts, revaluation reserves and retained earnings. In addition, we run the same test on both accounts, and the result was:

- **Revaluation reserves:** the results indicate that applying phase I of IFRS 9 has **No effect** on revaluation reserves in Palestinian banks at $\alpha = 0.05$ (Sig. "2-tailed") which equal to 0.098.
- **Retained earnings:** the results indicate that applying phase I of IFRS 9 has **No effect** on retained earnings in Palestinian banks at $\alpha = 0.05$ (Sig. "2-tailed") which equal to 0.095.

Panel B – Jordanian banks

From the above table, the results indicate that applying phase I of IFRS 9 on owners' equity has **No effect** on owners' equity in Jordanian banks at $\alpha = 0.05$ (Sig. "2-tailed") which equals to 0.308, which is supported by the previous literatures, such as ESMA (2016).

Moreover, when we analyse the effect based on each account within owners' equity statement, we found that that applying phase I of IFRS 9 affects only two account, revaluation reserves and retained earnings. In addition, we run the same test on both accounts, and the result was:

- Revaluation reserves: the result indicates that applying phase I of IFRS 9 on revaluation reserves has No effect on revaluation reserves in Jordanian banks at $\alpha = 0.05$ (Sig. “2-tailed”) which equal to 0.780.
- Retained earnings: the result indicate that applying phase I of IFRS 9 on retained earnings has No effect on retained earnings in Jordanian banks at $\alpha = 0.05$ (Sig. “2-tailed”) which equal to 0.559).

4.3.2 Second Part

The second part of the study includes two sections, each one of them tests different hypotheses.

4.3.2.1 First hypotheses

For the first hypotheses, we use One - sample Binomial test to determine the effect from applying phase II of IFRS 9 “new impairment model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan.

Table (34 and 35) shows the results of testing the effect from applying phase II of IFRS 9 “new impairment model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and

Jordan. The test is fit and suitable to test the hypothesis. The results of hypotheses testing are as follows:

H1: There is an effect from applying phase II of IFRS 9 “new impairment model” on the comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan.

Table 34: Summary of Statistics –One-sample Binomial test - Palestine.

Hypothesis Test Summary				
No.	Null Hypothesis	Test	Sig.	Decision
1.	The categories defined by Comprehensive income statement (Profit & loss) = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
2.	The categories defined by Retained Earning = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
3.	The categories defined by Specific provision = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
4.	The categories defined by General provisions = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
5.	The categories defined by Total impairment provision = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
6.	The categories defined by Owners Equity = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.

7.	The categories defined by Capital Adequacy Ratio (CAR) = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test	-	0.000	Reject the null hypothesis.
Asymptotic significances are displayed. The significance level is 0.5.					

From the table above, the results indicate that applying phase II of IFRS 9 “new impairment model” is expected to have an effect on:

1. Comprehensive income statement (Profit & Loss), at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 7.1% of respondents expected it to increase between (6-10%).
- 35.7% of respondents expected it to decrease between (0-5%), 14.3% of respondents expected it to decrease between (6-10%) and 7.1% of respondents expected it to decrease more than 20%.
- While the remaining (35.8%) of the respondents expected it to be unchanged.

2. Retained Earnings, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 7.1% of respondents expected it to increase between (11-15%).
- 57.1% of respondents expected it to decrease between (0-5%), 7.1% of respondents expected it to decrease between (6-10%) and 14.3% of respondents expected it to decrease more than 20%.

- While the remaining (14.3%) of the respondents expected it to be unchanged.

3. SP, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 14.3% of respondents expected it to increase between (0-5%), 28.6% of respondents expected it to increase between (6-10%), 7.1% of respondents expected it to increase between (11-15%) and 21.4% of respondents expected it to increase more than 20%.
- 7.1% of respondents expected it to decrease between (0-5%).
- While the remaining (21.4%) of the respondents expected it to be unchanged.

4. GP, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 7.1% of respondents expected it to increase between (0-5%) and 21.4% of respondents expected it to increase more than 20%.
- 21.4% of respondents expected it to decrease between (0-5%), 7.1% of respondents expected it to decrease between (6-10%), 7.1% of respondents expected it to decrease between (11-15%) and 14.3% of respondents expected it to decrease more than 20%.
- While the remaining (21.4%) of the respondents expected it to be unchanged.

5. Total impairment provision, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 28.6% of respondents expected it to increase between (0-5%), 28.6% of respondents expected it to increase between (6-10%), 7.1% of respondents expected it to increase between (11-15%) and 28.6% of respondent expected it to increase more than 20%.
- 7.1% of respondents expected it to decrease between (0-5%).

6. Owners' Equity, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 57.1% of respondents expected it to decrease between (0-5%), 14.3% of respondents expected it to decrease between (6-10%), 14.3% of respondents expected it to decrease between (11-15%) and 14.3% of respondents expected it to decrease more than 20%.

7. CAR, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 21.4% of respondents expected it to increase between (0-5%) and 7.1% of respondents expected it to increase between (6-10%).
- 42.9% of respondents expected it to decrease between (0-5%) and 14.3% of respondents expected it to decrease between (6-10%).
- While the remaining (14.3%) of the respondents expected it to be unchanged.

Table 35: Summary of Statistics –One-sample Binomial test - Jordan.

Hypothesis Test Summary				
No.	Null Hypothesis	Test	Sig.	Decision
1.	The categories defined by Comprehensive income statement (Profit & loss) = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
2.	The categories defined by Retained Earnings = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
3.	The categories defined by Specific provisions = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
4.	The categories defined by General provisions = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
5.	The categories defined by Total impairment provisions = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
6.	The categories defined by Owners Equity = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
7.	The categories defined by Capital Adequacy Ratio (CAR) = (0.5) and (Unchanged. Changed (Increase or Decrease)) occur with probabilities 0.5 and 0.5	One Sample Binomial Test -	0.000	Reject the null hypothesis.
Asymptotic significances are displayed. The significance level is 0.5.				

From the table above, the result indicates that applying phase II of IFRS 9 “new impairment model” **expected to have an effect on:**

1. Comprehensive income statement (Profit & Loss), at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 4.8% of respondents expected it to increase more than 20%.
- 47.6% of respondents expected it to decrease between (0-5%) and 19% of respondents expected it to decrease between (6-10%).
- While the remaining (28.6%) of the respondents expected it to be unchanged.

2. Retained Earnings, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 4.8% of respondents expected it to increase between (11-15%).
- 52.4% of respondents expected it to decrease between (0-5%), 23.8% of respondents expected it to decrease between (6-10%), 4.8% of respondents expected it to decrease between (11-15%) and 9.5% of respondents expected it to decrease more than 20%.
- While the remaining (4.8%) of the respondents expected it to be unchanged.

3. SP, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 14.3% of respondents expected it to increase between (0-5%), 19% of respondents expected it to increase between (6-10%), 14.3% of respondents expected it to increase between (11-15%), 4.8% of respondents expected it to increase between (16-20%) and 14.3% of respondents expected it to increase more than 20%.
- While the remaining (33.3%) of the respondents expected it to be unchanged.

4. GP, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 9.5% of respondents expected it to increase between (0-5%), 4.8% of respondents expected it to increase between (6-10%), 9.5% of respondents expected it to increase between (11-15%), 4.8% of respondents expected it to increase between (16-20%) and 4.8% of respondents expected it to increase more than 20%.
- 19% of respondents expected it to decrease between (0-5%) and 19% of respondents expected it to decrease more than 20%.
- While the remaining (28.6%) of the respondents expected it to be unchanged.

5. Total impairment provision, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 38.1% of respondents expected it to increase between (0-5%), 23.8% of respondents expected it to increase between (6-10%), 4.8% of respondents expected it to increase between (11-15%), 9.5% of respondents expected it to increase between (16-20%) and 14.3% of respondents expected it to increase more than 20%.
- 4.8% of respondents expected it to decrease between (6-10%).
- While the remaining (4.8%) of the respondents expected it to be unchanged.

6. Owners' Equity, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 95.2% of respondents expected it to decrease between (0-5%) and 4.8% of respondents expected it to decrease between (6-10%).

7. CAR, at $\alpha = 0.05$ (Sig. 0.000). According to the respondents, the expected effect will be as follow:

- 4.8% of respondents expected it to increase between (0-5%).
- 76.2% of respondents expected it to decrease between (0-5%).
- While the remaining (19%) of the respondents expected it to be unchanged.

As a result, we accept H1: there is an effect from applying phase II of IFRS 9 “new impairment model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan.

4.3.2.2 Second hypotheses

For the **Second hypotheses**, we use **level of agreement** to determine the difficulties in implementing IFRS 9 by the banks that operate in Palestine and Jordan.

Hint: we analysed the banks that operate in Palestine and Jordan as a two group, because there is a material difference in respondent answers between them.

H2: There are difficulties in implementing IFRS 9 by the banks that operate in Palestine and Jordan.

From the level of agreement and one sample test, we can conclude that there are difficulties in implementing IFRS 9 by the banks that operate in Palestine and Jordan if level of agreement Strongly agree or agree (when Sig. less than 5%) as follow:

Table (36): Difficulties in implementing IFRS 9.

No.	Difficulties in implementing IFRS 9	Banks that operate in:			
		Palestine		Jordan	
		Level of agreement	One sample test Sig.	Level of agreement	One sample test Sig.
A.	Difficulties in implementing Business model				
1.	Using judgment when assessing business model.	Strongly agree	0.000	Agree	0.038
2.	Clarification of the concept of 'infrequent and insignificant sales'.	Agree	0.001	Neutral	0.204
3.	Adopting more than one business model.	Agree	0.010	Neutral	0.680
4.	Determined when to change business model.	Agree	0.007	Neutral	0.137
B.	Solely payments of principal & interest				
5.	Using judgment when assessing whether the element provides consideration for only the passage of time.	Agree	0.026	Agree	0.047
6.	Determine if the change of financial liability fair value is attributable their own credit status or not	Agree	0.000	Neutral	0.170
C.	Information for IFRS 9 purposes				
7.	The lack or the inability to capture of reasonable and supportable historical information.	Neutral	0.533	Agree	0.116
8.	The lack or the inability to capture of reasonable and supportable current conditions information about IFRS 9.	Neutral	0.671	Neutral	0.693
9.	The lack or the inability to capture of reasonable and supportable future information.	Agree	0.051	Neutral	0.343
10.	Adjust historical data.	Neutral	0.302	Agree	0.053
D.	Availability of resources for IFRS 9 purposes				
11.	Outsourcing is not accessible	Neutral	0.457	Agree	0.052

E.	Determined significant increases in credit risk				
12.	The interpretation and application of IFRS 9 requirement to determine it.	Agree	0.000	Agree	0.017
13.	Using internal credit risk ratings to determine it.	Agree	0.001	Agree	0.054
14.	Using external ratings to determine if the financial instruments have a low credit risk.	Agree	0.045	Neutral	0.148
F.	Collective assessment basis				
15.	The aggregation of financial instruments into a group based on shared credit risk characteristics.	Agree	0.001	Agree	0.051
16.	Continue monitoring of the shared credit risk characteristics of financial instruments group.	Agree	0.000	Agree	0.010
G.	Processes, systems, models, data collection and risk management practices.				
17.	Modifying existing processes, systems, models, data collection to implement ECL model.	Agree	0.001	Agree	0.000
18.	Modifying existing credit risk management practices to implement ECL model.	Agree	0.006	Agree	0.000
H.	Governance and internal controls				
19.	Modifying existing internal control framework, roles, responsibilities and organizational design.	Agree	0.000	Agree	0.000
20.	Coordination across functions (Finance, Risk, IT, Internal audit and the Business).	Strongly agree	0.001	Agree	0.000
21.	Determine the responsibility for each functions.	Agree	0.002	Agree	0.000
I.	Disclosures for IFRS 9 purposes				
22.	Provide disclosures about management judgments, estimates and assumptions.	Agree	0.012	Agree	0.010

23.	Implement robust processes including a flexible control framework to fulfil the new disclosure requirements.	Agree	0.000	Agree	0.006
J.	Cost				
24.	Costs of implementing IFRS 9.	Agree	0.045	Neutral	0.309
25.	Preparing and qualifying the individuals and teams in the bank for applying IFRS 9.	Strongly agree	0.000	Agree	0.000

As a result, we accept the H2: there are difficulties in implementing IFRS 9 by the banks that operate in Palestine and Jordan.

Chapter Five

Conclusion and Recommendation

Chapter Five

Conclusion and Recommendation

5.1 Introduction

As discussed in chapter one, this thesis is primarily motivated to address the impact from adoption of IFRS 9 on the related financial statements for Palestinian & Jordanian banks. However, the researcher divided this thesis into two main parts to achieve the study objective, because part 1 of IFRS 9 (phase I) has already implemented by the banks that operate in Palestine and Jordan which provide quantitative data that enable the researcher to use secondary data to analyse the impact. However, the remaining parts of the standard (phase II and III) will be implemented in January 1st 2018 that force researcher to use primary data to analyse the expected impacts.

The data selected for the first part of this study from the banks that were operate in Palestine and Jordan when phase I of IFRS 9 was implemented in 2011-2012. In addition, the data needed for the second part of this study was obtained from the banks that are operating in Palestine and Jordan in 2019.

There is a scarcity of prior literature concerning the impact of adoption of IFRS 9 on the related financial statements in the emerging economic countries, especially in Palestine and Jordan. The main reason of this study is to fill the gap above and explain the impact of adoption of IFRS 9 on the related financial statements for banks.

This chapter include 6 sections. The second section provides a theses review. The third section discusses the implication of the study. The forth section discusses the limitation of the study. The Fifth section discusses the conclusions. The last section discusses the recommendations for future research.

5.2 thesis review

The nature of this thesis was introduced in chapter one, which covered the introduction of the study, problem statement, research questions, importance of the study, objectives and the contribution of the study.

In chapter two, the researcher discussed the literature review. This chapter includes several sections. The first section contains an introduction to accounting standards for financial instruments. The second section includes the history of the accounting standards for financial instruments. In the third section, the researcher discusses the IAS 39 requirements. In the fourth section, the researcher discusses IFRS 9 requirements, how it differs from IAS 39 requirements. In the fifth section, the researcher studied the classification and measurement of financial instruments under the IFRS 9. The sixth section discuss the expected effect of applying phase I of IFRS 9. The seventh section discuss the expected effect of applying phase II of IFRS 9. The eight section shows the difficulties in implementing of IFRS 9 by banks. The last section includes the hypotheses developed and in the last section.

In chapter 3 the researcher discussed the methodology used in this study which includes two main parts. The first part is a quantitative research while the second part is a qualitative research. In this chapter, the researcher discussed the research approach, study population and sample, data of the study and statistical methods used to analyse data.

Chapter 4 presented the data analysis and result. In this chapter, the researcher provide the descriptive statistics of variables, tested the hypotheses.

5.3 Implication of the study

The aim of this study is to evaluate the impact of adoption of IFRS 9 on the related financial statements for Palestinian & Jordanian banks. The aim of this thesis is to fill the gap in the literature related to IFRS 9 in emerging economic countries such as Palestine and Jordan. This study provides comprehensive investigations.

First, it examines the impact from implementing phase I of IFRS 9 “classification and measurement” on comprehensive income and owners’ equity statements in the banks that operate in Palestine and Jordan. **Secondly**, it investigates the expected effects from applying phase II of IFRS 9 “new ECL model” on comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan. **Finally**, it investigates the difficulties in implementing IFRS 9 requirements.

Moreover, the study provides a clear view and understanding of the issues related to IFRS implementation for stakeholders including regulators, academics, and it will be capable to enhance the IFRS 9 implementation in emerging economic countries.

5.4 Limitation of the study

The results of the study support extended evidence relating to the IFRS 9 effects. However, several limitations that should be taken into consideration when drawing the conclusions. **First**, the population of the first part of this study does not represent all banks that operate in Jordan. **Second**, the number of banks are small.

5.5 Conclusion

5.5.1 Part one

The results presented in the first part of this study show that the early adoption of phase I of IFRS 9 “classification and measurement” has **No material effect** on comprehensive income and owners’ equity statements in the banks that operate in Palestine and Jordan at ($\alpha = 0.05$). These results confirm ESMA (2016) conclusions, which indicate, “The overall impact of the change in classification and measurement requirements does not seem very significant for most banks”.

In contrast, phase I of IFRS 9 have a different effect on each bank level (for both the banks that operate in Palestine and Jordan). In addition, if we focus on each account under owners’ equity statement we can see that

the early adoption of phase I of IFRS 9 has a material effect on revaluation reserves on each bank level (for both the banks that operate in Palestine and Jordan).

According to Huian (2012, p.39), the real impact of applying IFRS depends on factors such as: the types of financial assets held by the entity, the previous classification, and the choices made under the new one. **All of these factors are illustrate in the following table:**

Table 37: Summary of reclassification between IAS 39 and IFRS 9.

classification categories under IAS 39	Classification categories under IFRS 9								
	Fair value through profit or loss (FVTPL)			Fair value in other compressive income (FVTOCI)			Amortized cost		
	Bond	Stocks	Mutual Fund	Bond	Stocks	Mutual Fund	Bond	Stocks	Mutual Fund
Held for trading (HFT)	0	0	0	0	0	0	0	0	0
	290,810,000	62,965,965	0	0	1,680,584	0	49,703,000	0	0
Available for sale (AFS)	0	0	0	0	450,975	0	0	0	0
	641,764,506	252,022,559	48,522,715	44,457,841	589,475,724	0	8,517,441,570	65,378,556	1,000,000
Held-to-maturity (HTM)	0	0	0	0	0	0	7,054,398	0	0
	56,938,065	22,617,394	0	0	0	0	4,129,497,650	0	3,473,976
Loans and receivables (LAR) category remain the same under both standars (IAS 39 and IFRS 9).									
Palestinian banks data are presented in row 1 of each category under IAS 39, Jordinian banks data are presented in row 2 of each category under IAS 39.									

From the above table, we conclude the following:

- Most of the financial instruments that classified under IAS 39 as HFT instruments are reclassify under IFRS 9 as FVTPL instruments, and only 12% of financial instruments are reclassified under IFRS 9 as AC, which affects net income and equity.
- Most of the financial instruments that classified under IAS 39 as AFS instruments are reclassified under IFRS 9 as AC instruments, which affect only OCI. In addition, 9% of financial instruments are reclassified under IFRS 9 as FVTPL, and only 6% are reclassified under IFRS 9 as FVTOCI.

- Almost all of financial instruments that classified under IAS 39 as HTM instruments are reclassified under IFRS 9 as AC instruments.

Notes:

1. All of the banks that operate in Palestine were commercial banks except two banks, which were Islamic banks.
2. All of the Jordanian banks were commercial banks except two banks which were Islamic banks.
3. All of banks numbers were present in US dollars. Banks that represented their financial statements in Jordanian dinars "JD" were converted to US dollars at fixed exchange rate (1 US dollar = 0.709 Jordanian dinars).
4. The measurement basis of financial liabilities remains similar to the one under IAS 39. Therefore, we do not consider it.
5. The loans and advances continue being measure at AC and those that are currently being measure at FVTPL continue to be measured on that basis under IFRS 9.
6. Applying phase I of IFRS 9 had non-material effect on legal reserves and disclosed reserves accounts, which these accounts came under owners' equity account.

5.5.2 Second Part

The results presented in the second part of this study show that implementing phase II of IFRS 9 “new impairment model” expected to affect comprehensive income statement, SP and GP and CAR in the banks that operate in Palestine and Jordan at ($\alpha = 0.05$). In addition, there are difficulties in implementing IFRS 9 by the banks that operate in Palestine and Jordan. These results are going with the previous research.

5.6 Recommendations

5.6.1 for future research

The results presented provide early evidence on the impact of early adoption of phase I and II of IFRS 9 for a small sample of banks in emerging capital markets. In this sense, the results presented here introduce some early evidence with respect to the impact of IFRS 9 adoption and suggest the following recommendations for future research. **First**, the focus of the present study is on the expected effect of applying phase I of IFRS 9 in the emerging capital markets. However, future work should also address the expected effect of applying the whole standard. **Second**, since this paper focuses on banks, the findings may not be generalizable to other firms. **Third**, since our sample has only banks no meaningful statistical conclusions with respect to others firms about the expected effect of applying IFRS 9 may deride. However, the early evidence presented here about applying accounting standards, which not required todody suggests that this is an important issue for future research.

5.6.2 for regulator

The results presented provide early evidence on the impact of early adoption of phase II of IFRS 9 and the difficulties that face banks in the emerging capital markets. As a result, the regulator should:

- Analyse the effect of applying phase II of IFRS 9 (when they implement) to see the effect on bank's comprehensive income statement, SP and GP and CAR, and take corrective action.
- Treat (on a case-by-case basis) the decline of banks SP and GP and CAR.
- Apply the transfer period to reflect the effect of applying IFRS 9 on CAR according to BCBS (2017) recommendations.
- Issue further instructions to assist banks to overcome the difficulties in implementing IFRS 9.
- Issue further instructions to ensure constant application of IFRS 9 between banks.

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Appendix (A)

Questionnaire

An-Najah National University

Faculty of Graduate Studies

Accounting master program

Dear respondent,

The aim of this questionnaire is to identify the perceptions of the respondents on the effects of applying phase II of IFRS 9 and the obstacles associated with IFRS 9 adoption. The questionnaire was developed based on the related literature in order to obtain data required for accomplishing a study entitled "*The impact of adoption of IFRS 9 on the related financial statements for Palestinian & Jordanian banks*". Accomplishing this study enhances the appropriate application of IFRS 9.

We hope that you answer all the questions carefully since the validity of the study results depends primarily on the accuracy of your responses. We would like to point out that the information provided would be treated confidentially and will only be used for research purposes.

Guidelines:

- 1) Please read the question carefully and put "X" towards the choice expresses your thought.
- 2) Please fill the questionnaire without leaving any item unanswered.

Best regards to you.

The researcher

Raja Nayef Awawda

❖ **Section I: Personal data:****1) Qualification:**

- ☐ Diploma

 ☐ Bachelor (BA.)
☐ Master Degree (MS.)

 ☐ Others

2) Specialization:

- ☐ Accounting

 ☐ Administration
☐ Banking and Financial Sciences

 ☐ Economy
☐ Others

3) Professional Certificates:

- ☐ CMA

 ☐ CPA
☐ CFA

 ☐ Others

❖ **Section II: The expected effects of applying the new impairment model (ECL) under IFRS 9:**

Based on your knowledge and experience in your bank, what is the expected effect of applying the new impairment model (ECL) under IFRS 9 on:

Expected effect on:				Increase	Unchanged	Decrease		
1.	Comprehensive income statement (Profit & Loss)							
2.	Retained Earning							
3.	Specific provision							
4.	General provisions							
5.	Total impairment provision							
6.	Owners' Equity							
7.	Capital Adequacy Ratio (CAR)							
By how much:				0-5%	6-10%	11-15%	16-20%	> 20%

1.	Comprehensive Income statement (Profit & Loss)					
2.	Retained Earning					
3.	Specific provision					
4.	General provisions					
5.	Total impairment provision					
6.	Owners' Equity					
7.	Capital Adequacy Ratio (CAR)					

❖ Section III: Obstacles of application the requirements of IFRS 9:

Based on your knowledge and experience in your banks, please indicate the level of your agreement if each of the following statements represents one of the probable obstacles associated with the application of IFRS 9:

No.	Paragraph	Level of agreement				
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
I	Classification & Measurements					
A.	Business model					
1.	Using judgment by bank management when assessing its business model for managing financial assets.					
2.	Clarification of the concept of ' infrequent and insignificant sales ' when assessing business model for managing financial assets.					
3.	Adopting more than one business model by bank for managing financial instruments.					
B.	Solely payments of principal and interest (SPPI)					
4.	Using judgment by bank management when assessing whether the element provides consideration for only the passage of time .					
5.	Determine if the change in fair value of the financial liability is attributable to changes in their own credit status or not.					
6.	Determined when the bank should changes its business model for managing financial assets.					

II	New impairment model (ECL)					
C.	Information for IFRS 9 purposes					
7.	The lack (or the inability to capture) of reasonable and supportable historical information for IFRS 9 purposes.					
8.	The lack (or the inability to capture) of reasonable and supportable information about current conditions for IFRS 9 purposes.					
9.	The lack (or the inability to capture) of reasonable and supportable information about forecasts of future economic conditions for IFRS 9 purposes.					
10.	Adjust historical data based on current observable data to reflect the effects of the current and forecasts of future conditions to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows.					
D.	Availability of resources					
11.	Enough technical resources required to implement IFRS 9 are unavailable in your bank? If 'agree', answer next question					
12.	In the case of any internal resource shortfall, outsourcing is not accessible.					
E.	Significant increases in credit risk (Movement between stages)					
13.	The interpretation and application of IFRS 9 requirement to determine the significant increases in credit risk.					
14.	Using internal credit risk ratings to determine if the financial instruments have a low credit risk.					
15.	Using external ratings developed by rating agencies, such as S & P, Moody's, etc. to determine if the financial instruments have a low credit risk.					
F.	Collective assessment basis					
16.	The aggregation of financial instruments into a group based on shared credit risk characteristics .					
17.	Continue monitoring - on on-going bases – of the shared credit risk characteristics of financial instruments group, to identify significant increases in credit on a timely basis.					
G.	Processes, systems, models, data collection and risk management practices					
18.	Modifying existing processes, systems, models, data collection to implement ECL model					

19.	Modifying existing credit risk management practices to implement ECL model.					
III Over all challenges in implementing IFRS						
H. Governance and internal controls						
20.	Modifying existing internal control framework, roles and responsibilities as well as organizational design for IFRS 9 purposes.					
21.	Coordination across functions (Finance, Risk, IT, Internal audit and the Business) for IFRS 9 purposes.					
22.	Determine the responsibility for each functions (Finance, Risk, IT, Internal audit and the Business) in implementing IFRS 9.					
I. Disclosures						
23.	Provide disclosures about management judgments, estimates and assumptions.					
24.	Implement robust processes including a flexible control framework in order to fulfil the new disclosure requirements for IFRS 9.					
J. Cost						
25.	The costs of implementing IFRS 9 (more complex IT systems, more data, and complex calculations at each reporting date) outweigh the benefits.					
26.	Preparing and qualifying the individuals and teams in the bank for applying IFRS 9.					

ECL model: please choose the best option that describes your approach in implementing ECL

27. In terms of ECL model development to deliver IFRS 9, which option(s) best describes your approach?	
Leverage existing models used for Basel purposes (e.g. regulatory capital, economic capital, stress testing)	
Leverage existing models (IAS 39) used in the existing collective impairment methodology	
Leverage existing models used for internal rating models	
Leverage existing models used for operational purposes (e.g. application and behavioural scorecards)	
Build new models for IFRS 9 purposes only	
Other	

Appendix (B)**Table 38: First Part sample – Banks name**

No.	Banks Name
Panel A, banks that operate in Palestine	
1.	Bank of Palestine
2.	Quds bank
3.	The National Bank
4.	Palestine Investment Bank
5.	Palestine Commercial Bank
6.	Palestine Islamic Bank
7.	Arab Islamic Bank
8.	Arab Bank
9.	Cairo Amman Bank
10.	Bank of Jordan
11.	The Housing Bank for Trade & Finance
12.	Jordan Ahli Bank
13.	Jordan Commercial Bank
14.	Jordan Kuwait Bank
15.	Bank Al Etihad
16.	Egyptian Arab Land Bank
Panel B, banks that operate in Jordan	
1.	Arab Bank
2.	Cairo Amman Bank
3.	Bank of Jordan
4.	The Housing Bank for Trade & Finance
5.	Jordan Ahli Bank
6.	Jordan Commercial Bank
7.	Jordan Kuwait Bank
8.	Bank Al Etihad
9.	Investment Bank
10.	Jordan Islamic Bank
11.	Jordan Dubai Islamic Bank
12.	Arab Jordan Investment Bank
13.	Arab Banking Corporation Bank – Jordan
14.	Societe Generale Bank – Jordan
15.	Capital Bank

Table 39: Second Part sample – Banks name

No.	Banks Name
Panel A, banks that operate in Palestine	
1.	Bank of Palestine
2.	Quds bank
3.	The National Bank
4.	Palestine Investment Bank
5.	Palestine Islamic Bank
6.	Arab Islamic Bank
7.	Safa Bank
8.	Arab Bank
9.	Cairo Amman Bank
10.	Bank of Jordan
11.	The Housing Bank for Trade & Finance
12.	Jordan Ahli Bank
13.	Jordan Commercial Bank
14.	Egyptian Arab Land Bank
Panel B, banks that operate in Jordan	
1.	Arab Bank
2.	Arab Banking Corporation Bank – Jordan
3.	Bank of Jordan
4.	Cairo Amman Bank
5.	Capital Bank
6.	Jordan Commercial Bank
7.	Jordan Kuwait Bank
8.	Jordan Ahli Bank
9.	The Housing Bank for Trade & Finance
10.	Arab Jordan Investment Bank
11.	Investment Bank
12.	Societe Generale Bank – Jordan
13.	Bank Al Etihad
14.	Standard Chartered PLC – Jordan
15.	Egyptian Arab Land Bank
16.	Citi Bank – Jordan
17.	Rafidain Bank
18.	National Bank of Kuwait
19.	BLOM Bank
20.	Bank Audi SAL
21.	Islamic International Arab Bank
22.	Jordan Islamic Bank
23.	Safwa Islamic Bank (Jordan Dubai Islamic Bank)
24.	Al Rajhi Bank

جامعة النجاح الوطنية

كلية الدراسات العليا

أثر تطبيق المعيار الدولي لإعداد التقارير المالية رقم (9) على القوائم
المالية ذات الصلة للبنوك العاملة في فلسطين والأردن

إعداد

رجا نايف عواودة

إشراف

د. معز أبو عليا

قدمت هذه الأطروحة استكمالاً لمتطلبات الحصول على درجة الماجستير في المحاسبة، بكلية
الدراسات العليا، في جامعة النجاح الوطنية، نابلس - فلسطين.

2019

أثر تطبيق المعيار الدولي لإعداد التقارير المالية رقم (9) على القوائم المالية ذات الصلة للبنوك العاملة في فلسطين والأردن

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إشراف

د. معز أبو عليا

الملخص

بعد الأزمة المالية العالمية الأخيرة، تم توجيه العديد من الانتقادات لمعيار المحاسبة الخاصة بالأدوات المالية، على سبيل المثال، تم انتقاد معيار المحاسبة الدولي رقم (39) بكونه سبباً رئيسياً في الأزمة نظراً لكونه يسمح بتصنيف الأدوات المالية بطريقة تفصح المجال لإدارة المؤسسات بإخفاء الوضع المالي الحقيقي للمؤسسة. كما أنه يعمل على تكوين مخصصات قليلة ومتأخرة لمواجهة الهبوط في قيمة الأدوات المالية. وبناءً على ذلك، قام مجلس معايير المحاسبة الدولية بإصدار المعيار الدولي لإعداد التقارير المالية رقم (9) للتغلب على العيوب السابقة.

قدم المعيار الدولي لإعداد التقارير المالية رقم (9) طريقة جديدة لتصنيف وقياس الأدوات المالية، حيث أصبح نموذج أعمال المؤسسة وخصائص التدفقات النقدية أساساً لتصنيف الأدوات المالية بدلاً من نية وقدرة إدارة المؤسسة التي اعتمدت سابقاً كأساس للتصنيف. إن اعتماد الطريقة الجديدة للتصنيف والقياس سيؤثر على قائمة الدخل الشامل وقائمة حقوق الملكية للمؤسسات نظراً لاختلاف آلية معالجة الأرباح أو الخسائر والقيمة العادلة الخاصة بالأدوات المالية.

كما وقدم المعيار الدولي لإعداد التقارير المالية رقم (9) طريقة جديدة لاحتساب مخصص التدني في قيمة الأدوات المالية بحيث يأخذ بالاعتبار التغير في القيمة العادلة للأدوات المالية قبل وجود دليل فعلي على ذلك. إن اعتماد الطريقة الجديدة لاحتساب مخصص التدني في قيمة الأدوات المالية يتوقع له أن يؤثر بشكل جوهري على محاسبة الأدوات المالية، بالإضافة إلى ارتفاع مخصص التدني بشكل كبير خصوصاً عن تطبيق الطريقة الجديدة المبينة على عمر الأداة

المالية، فضلاً عن أخذ المعلومات ذات النظرة المستقبلية في عملية التقييم والقياس (BCBS, 2017).

إن الهدف الرئيسي من هذه الأطروحة العمل على اختبار أثر تطبيق المعيار الدولي لإعداد التقارير المالية رقم (9) على القوائم المالية ذات الصلة للبنوك العاملة في فلسطين والأردن. ولتحقيق هذا الهدف، عمل الباحث على تقسيم الأطروحة إلى الأهداف الفرعية التالية:

أولاً: دراسة أثر تطبيق المرحلة الأولى من المعيار "التصنيف والقياس" على قائمة الدخل الشامل وقائمة حقوق الملكية للبنوك العاملة في فلسطين والأردن. قام الباحث بتجميع البيانات المالية للقائمتين من التقارير السنوية للبنوك العاملة في فلسطين (16 بنك) والأردن (15 بنك) خلال العام الذي تم تطبيق تلك المرحلة به (2011-2012). تم تحليل البيانات باستخدام اختبار Paired Sample Test لقياس أثر تطبيق تلك المرحلة، حيث اظهرت النتائج عدم وجود تأثير جوهري لتطبيق المرحلة الأولى من المعيار على قائمتي الدخل الشامل وحقوق الملكية.

ثانياً: دراسة أثر تطبيق المرحلة الثانية من المعيار "احتساب مخصص التدني لقيمة الأدوات المالية" على ما يلي: قائمة الدخل الشامل، المخصصات الخاصة، المخصصات العامة وكفاية رأس المال للبنوك العاملة في فلسطين والأردن. قام الباحث بتجميع البيانات المالية من البنوك العاملة في فلسطين (14 بنك) والأردن (24 بنك) من خلال استبان معد لذلك الغرض. تم تحليل البيانات باستخدام اختبار One-Sample Binominal Test لقياس الأثر المتوقع لتطبيق تلك المرحلة، حيث اظهرت النتائج أن تطبيق المرحلة الثانية من المعيار يتوقع أن يؤثر بشكل جوهري على قائمة الدخل الشامل، المخصصات الخاصة، المخصصات العامة وكفاية رأس المال للبنوك العاملة في فلسطين والأردن. تجدر الإشارة إلى أن الأثر المتوقع يختلف من بنك لآخر بناءً على ملف المخاطر للبنك، مستويات كفاية رأسمال البنوك ومحفظة الأدوات المالية الخاصة بكل بنك.

ثالثاً: دراسة الصعوبات المتعلقة بتطبيق المعيار الدولي لإعداد التقارير المالية رقم (9) والتي تواجه البنوك العاملة في فلسطين والأردن. قام الباحث بتجميع البيانات المالية من البنوك العاملة في فلسطين (14 بنك) والأردن (24 بنك) من خلال استبان معد لذلك الغرض. تم تحليل البيانات

باستخدام اختبار One-Sample Test لقياس تلك الصعوبات، حيث أظهرت النتائج وجود العديد من الصعوبات في عدة حقول منها: تطبيق نموذج الاعمال، تحديد خصائص التدفقات النقدية للأدوات المالية، تحضير البيانات لغايات المعيار، تحديد زيادة مخاطر الائتمان، التقييم المجمع، تغير وتطبيق الانظمة الخاصة بتطبيق المعيار، الإفصاح والتكلفة المتعلقة بالتطبيق.

تشير نتائج الدراسة إلى وجود أدلة مبكرة على الاثر المتوقع لتطبيق المعيار الدولي لإعداد التقارير المالية رقم (9) بناءً على عينة صغيرة من البنوك العاملة في الأسواق المالية الناشئة. وبناءً عليه، قد يتطلب الأمر من المشرعين مزيداً من التحليل للأثر المترتب على التطبيق واتخاذ الإجراءات التصحيحية الواجبة، النظر في امكانية تطبيق فترة انتقالية لعكس اثر تطبيق المعيار بناءً على ارشادات BCBS (2017)، وإصدار التعليمات الإضافية لمساعدة البنوك على التغلب على معوقات وصعوبات تطبيق المعيار.

