

IFRS 9/IPSAS 41 -Financial Instruments

Presentation by:

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Presentation agenda



- ☐ Introduction
- ☐ Impairment with practical implementation emphasis
- ☐ Implementation successes
- ☐ Challenges identified
- ☐ Way forward
- ☐ Q&A

Introduction - Impairment



Expected
loss model



Past events

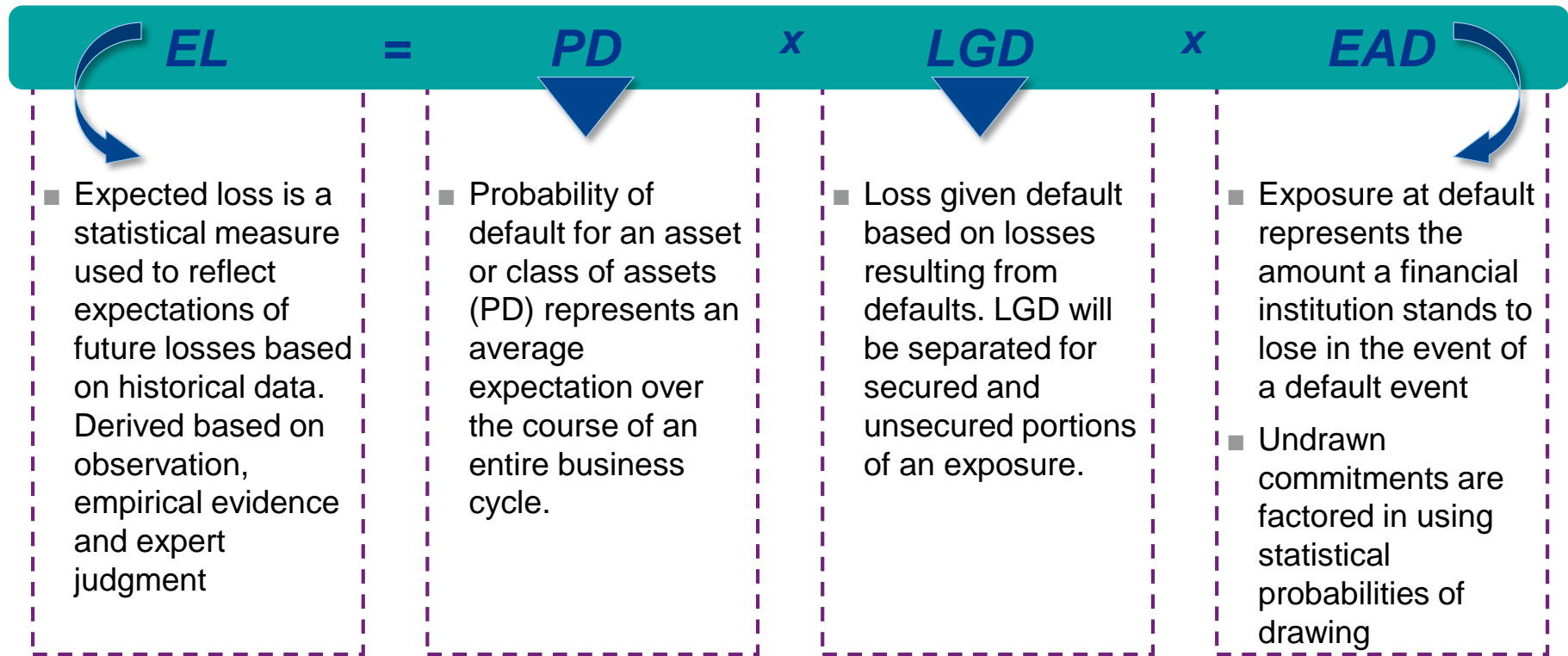
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Current conditions

+

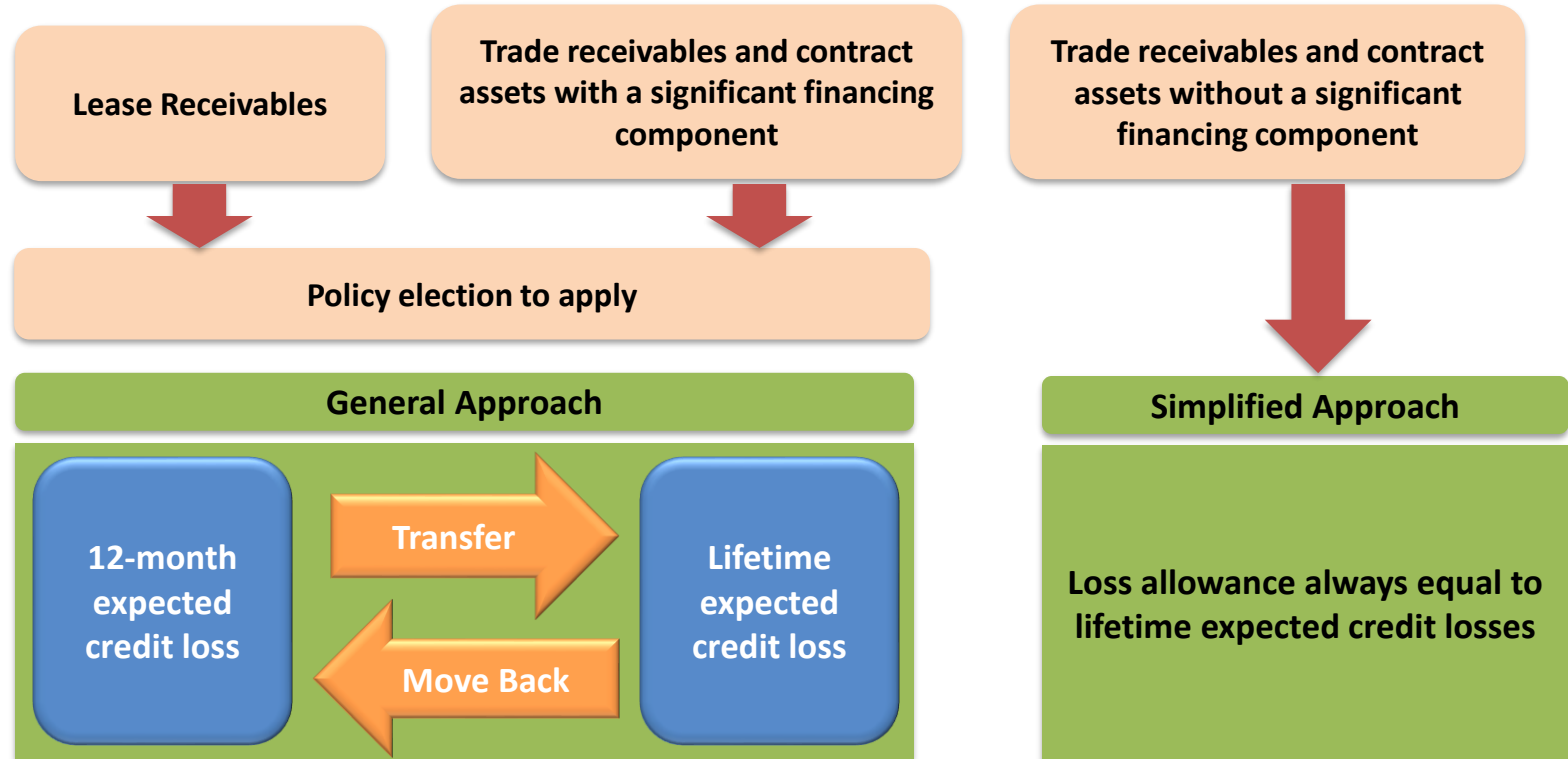
Forecast of future economic
conditions

Impairment - high level overview

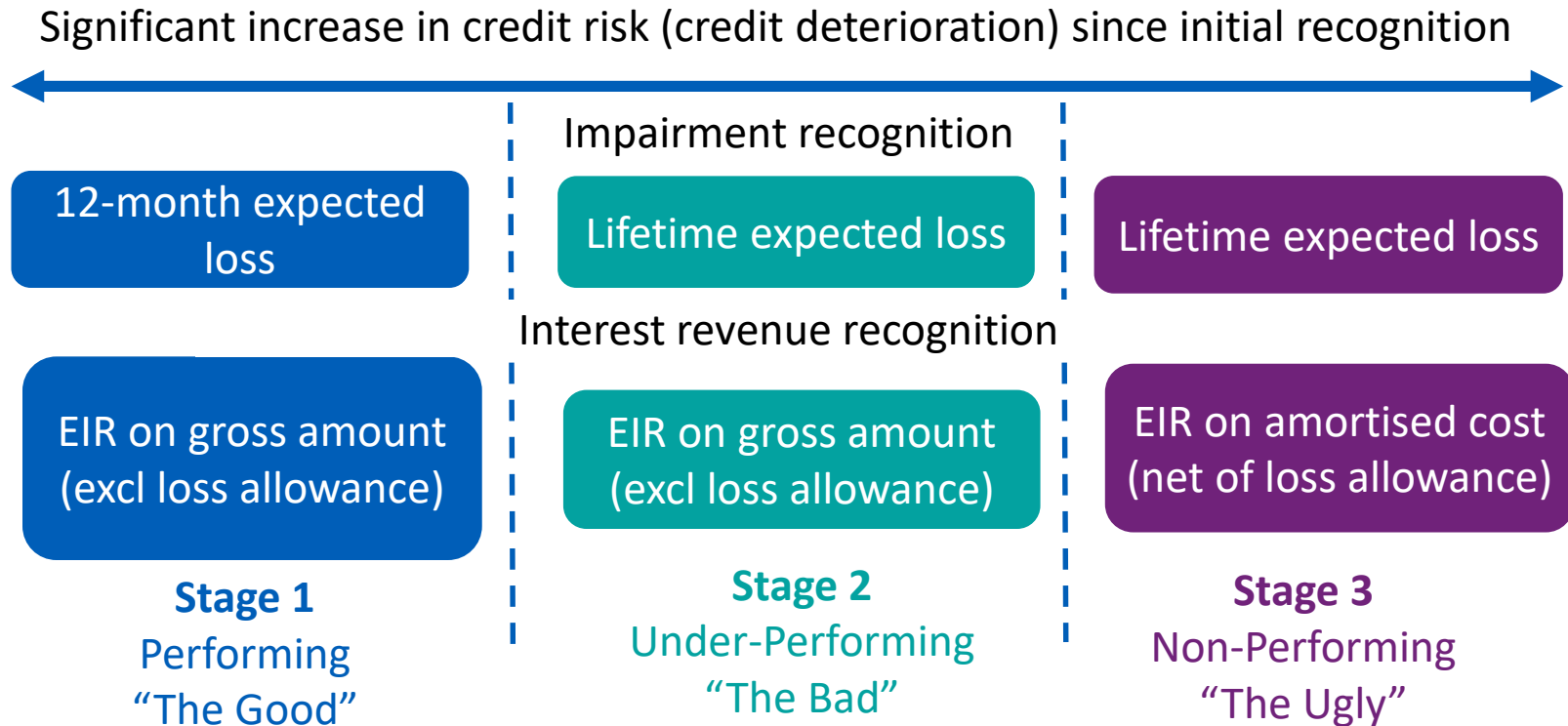


■ Changes to existing models are necessary to comply with lifetime expected credit loss (LECL) requirements

Impairment – General approach versus Simplified approach



IFRS 9 ECL – General mode



EIR: Effective interest rate

12-month ECLs are the portion of lifetime expected credit losses that represents losses resulting from default events that are possible within 12 months

Lifetime ECLs are the expected credit losses that result from all possible default events over the expected life of a financial instrument

Implementation Successes



4 Successes

Compliance

-Implementation compliant with IFRS 9 impairment requirements for financial assets

Disclosures

- Richer information relevant to investors (key ECL assumptions, SICR/additional financial assets in the period, drivers of ECL changes etc.)

Implementation Successes (cont.)



4 Successes (cont.)

Management
of financial
assets

- Improved accounting and reporting on financial assets
- Undrawn commitments
- Lending/ extending credit limits

Business
strategy

- Enhanced credit risk management practices
- Influencing strategy on acquisition of financial assets

Challenges identified



5 key challenges

Data

Limited historical data for PD and LGD; validation challenges; management overlays

Forward looking
information

Complex models; Statistically significant relationships may not be identified

SICR

Staging criteria relies solely on past due information; probation

Challenges identified (Cont.)

5 key challenges (cont.)

Proxy PDs

Ratings developed by credit agencies may not be reflective of local market characteristics

Effective interest rate (EIR)

Contractual rates being used to discount cash flows when determining LGD while IFRS 9 requires EIR

Way forward



5 considerations

Data

- Develop policies and controls for validation
- Data governance

SICR

- Incorporate qualitative, quantitative and forward looking information
- Credit ratings
- Segmentation of financial assets

Way forward (cont.)



5 considerations (cont.)

Disclosures	- Continue to enhance disclosures and align to credit risk management practices
ECL Models	- Model governance and validation frameworks
Automation of models	- To address Excel limitations and risks of error

Q&A

