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Moving toward the IFRS 9 ECL Model: Capital Transitional Arrangement and Bank Systematic Risk

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IFRS 9 - Background



Objective

Establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

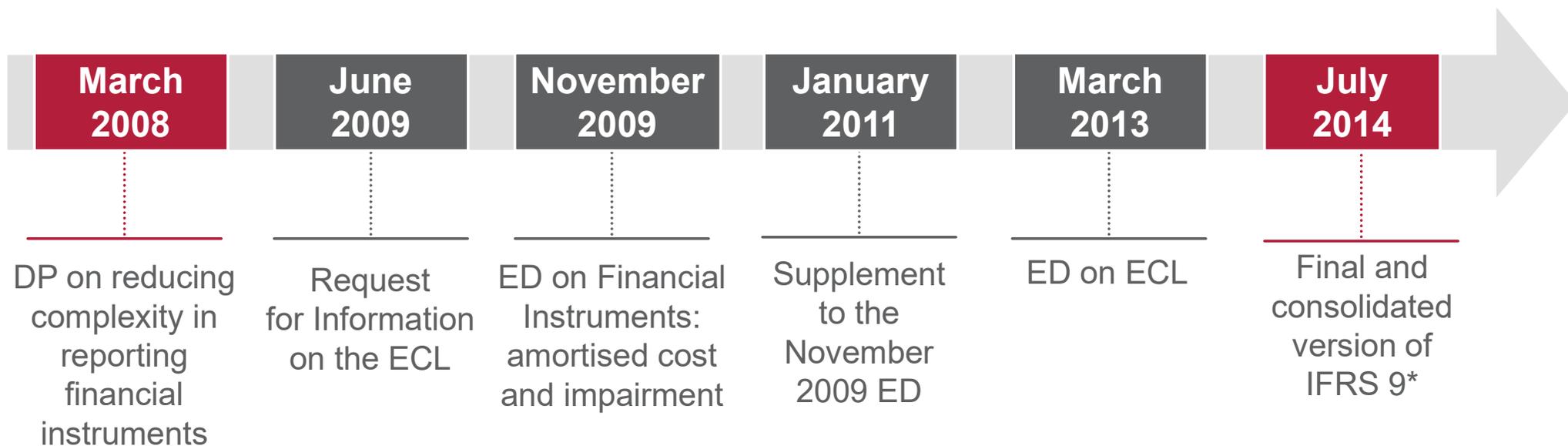
Developed to replace IAS 39* – *Financial Instruments: Recognition and Measurement*

Developed in three phases:

- Classification and measurement
- Impairment
- Hedge accounting

*IFRS 9 provides a temporary accounting policy choice to apply the hedge accounting requirements of IAS 39

IFRS 9 – ECL timeline



***Effective date 1 January 2018**

Authors' article – link between CTA and IFRS

- The primary purpose of the study is “*to examine bank-specific determinant factors that influence bank CTA adoption choice and consequences of this choice on bank risk taking*”
- You mentioned in your paper that your findings have timely implications for accounting standard setters
- We suggest making a clear link between the findings and the importance of them to accounting standard setters, eg did the financial statements properly reflect the economic consequences of the CTA option?

Authors' article – Bridging the GAP with the CTA

- *One of the findings is that the IFRS 9 ECL together with the CTA, significantly changes banks' reporting choice as well as risk taking. And your results suggest that transitional policies such as the CTA are effective in bridging the regulation gap between the Basel rules and IFRS*

Question: *Isn't the CTA something that, if necessary, can be provided by prudential and regulatory agencies, instead of by standard setters?*

Authors' article – ECL model: earlier recognition

- *The study refers to a statement of the Basel Committee that the earlier recognition of credit losses is expected to increase loan loss allowance [and decrease regulatory capital, with unexpected decline in capital ratios];*

Question: *Can the decrease in the exposure to systematic risk be an indication that the 'earlier recognition' was actually 'timely recognition' and that the CTA was a temporary tool to adapt to the circumstances?*

Authors' article – Managerial discretion

- *“the use of forward-looking information to measure the LLA under IFRS 9 introduces a significant amount of managerial discretion”*
- *Your study suggests that with effective banking authorities, the CTA option would not incentivise banks to engage in opportunistic behaviour;*

Comment: *As standard setters, our general view is that managerial behaviour is usually better dealt with by auditors and regulators, not standard setters.*

Conclusion and suggestions

- As most of the issues discussed in this study are in the regulatory field, to make it more relevant to standard setters I would explore making a better link, for example, to see whether and how, the IFRS 9 disclosures captured your findings.
- As the IASB will need to carry out a *post implementation review* of IFRS 9, a relevant study would be on whether the adoption of the ECL model improved the risk management, especially of those banks using the standardised approach.
- Future studies could also gather information on:
 - The general main challenges in implementing the ECL model
 - The adequacy of the IFRS 9 disclosures

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