CREDIT RISK MANAGEMENT AND IFRS 9

AT QUANTS

The session was conducted by Alumni of Computational Finance Mr. Shakeeb Shujat on Credit Risk Management and IFRS 9 on saturday 2nd July 2022.

It started off by the speaker discussing the basics of Risk management while going through what the term actually means and how it is used in the industry. He then shifted the discussing towards something more particular in the domain being Credit Risk and expressed the importance of Credit risk for banks as he himself being a banker. Then the session went into how banks use Credit risk to rank their loans using ratings and also calculating each ones exposure at lost, expected loss and Credit default probability.

After this the discussing was lead towards what the IFRS9 is and why was it created. Students had a good discussing on the topic while Mr Shakeab giving his views about each question.

The session ended by Mr. Umair also an Alumni sharing a few words of knowledge with the students and following that the award ceremony to end things.

ABOUT IFRS-9

1- IFRS 9 is an International Financial Reporting Standard published by the International Accounting Standards Board. It addresses the accounting for financial instruments.
IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

2- The objective of IFRS 9 is to 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.

3- IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

4- IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase.

5- IFRS 9 updated the guidance for hedge accounting. The intent was to "[align] the accounting treatment with risk management activities, enabling entities to reflect better these activities in their financial statements.
The changes also make it more feasible for non-financial entities to use hedge accounting.
The changes permit more use of hedge accounting for components of instruments and groups of contracts, and ease the hedge effectiveness test.
They also enhance the disclosures related to hedges and risk management with a requirement to refer to a formal risk management strategy or describe it clearly in the hedge documentation.

STUDENT’S LEARNINGS:

1- What is credit risk why it arises and how to manage it. Soz Credit risk arises when a corporate or individual borrower fails to meet their debt obligations. It is the probability that the lender will not receive the principal and interest payments of a debt required to service the debt extended to a borrower.

2- All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income.

3- IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

4- IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the ‘macro hedge accounting’ requirements) since this phase of the project was separated from the IFRS 9 project due to the longer term nature of the macro hedging project which is currently at the discussion paper phase of the due process. In April 2014, the IASB published a Discussion Paper Accounting for Dynamic Risk management: a Portfolio Revaluation Approach to Macro Hedging. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.