



IFRS 9 – Application Issues for Caribbean Lenders

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Objective

- Outline Key IFRS 9 Principles for Lenders
 - Banks, Credit Unions, HP providers ...
 - Trade receivables too!
- Consider Caribbean Issues
 - Data, Resources, Legislation ...

IFRS 9 Overview

- Effective 1 Jan 2018
 - ... 1Jan2017 comparatives!
- Response to Global Financial Crisis
- Financial Instruments (replaces IAS39)
 - Recognition / Measurement
 - Expected vs Incurred Losses
 - Hedge Accounting

Expected Credit Losses (ECL)

- Example
 - Rural Microfinance Company
 - Average loan losses 5%
 - Average loss on a non-performing loan 40%
 - \$8,000 loans are performing
 - \$2,000 loans are non-performing

Simple Example

| Loan Type | Good | Bad | Total |
|-------------------|--------------|--------------|--------------|
| Loss % | 5% | 40% | |
| Loans | 8,000 | 2,000 | 10,000 |
| Incurring Losses | - | (800) | (800) |
| IAS 39 B/S | 8,000 | 1,200 | 9,200 |
| Loans | 8,000 | 2,000 | 10,000 |
| Expected Losses | (400) | (800) | (1,200) |
| IFRS 9 B/S | 7,600 | 1,200 | 8,800 |

ECL – For ALL Loans

- Based on
 - Discounted present value of future cashflows under different scenarios, including a default scenario * probability of each scenario.
 - *"all reasonable and supportable information"*
 - *"available at the reporting date without undue cost or effort"*
 - *"about past events, current conditions and forecasts of future economic conditions."*

ECL At Each Reporting Date

- Hold full ECL
 - Trade Receivables
 - Loans whose credit risk has increased
- Hold 12 month ECL
 - Loans whose credit risk has NOT significantly increased since inception
 - [proportion of ECL that relates to defaults in next 12 months = more complicated than it sounds]
- More complicated for renegotiated loans, loans that were credit impaired on origination.

Issues

- Modelling past loss patterns
- Identifying and tracking credit risk history
- Building & testing credit risk models
- Limited consumer and corporate rating
- ECL calculations on inception
- Taxation
- Capital / Regulatory Conflict
- Reduced national development
- Sovereign Debt



Discussions



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