



CENTRE *of* EXCELLENCE *in* FINANCIAL SERVICES

Directed Risk Research Programme

DIRECTED RESEARCH PROBLEM STATEMENT

Research Theme	Standardized approach to modelling IFRS9	Problem Nr.	PS21005
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Project Title: Credit Risk: Standardized approach to modelling IFRS9

1. Project Goal

The goal of this project is to develop a standardized way of measuring impairment for IFRS9 for credit risk.

2. Higher level description of problem

IFRS9 is a relatively new accounting statement; this project will specifically deal with the quantification of the impairment calculation to derive the expected lifetime credit loss (ECL). First generation models have landed already- they are in use. However, knowledge of their deficiencies now become apparent. Therefore, this is the time to relook at these models. Unlike regulatory credit risk models, which are more mature, the first generation models are dissimilar across industry.

An IFRS9 model has several components, to name a few:

1. The macroeconomic input (forward looking).
2. The significant increase in credit risk (SICR) rules- this should also ideally be forward looking.
3. The PD curve- a representation of different PDs at different times in the future.
4. The model that brings all the components together.

All the components need to be relooked at.

3. Project objectives

A standardized framework for quantifying IFRS9, so industry numbers are better aligned and comparable.

4. Outputs required

A document/paper/article

5. Funding for project

To be completed by the DST.

6. Strategic value to directed risk research

This will give industry some guidance on the quantification of impairment: IFRS9.