

IFRS for Banks: A Credit Perspective

A one-day workshop for experienced analysts, focusing on the impact that the change to IFRS will have on the key performance indicators and analysis of Banks.

TARGET AUDIENCE

Credit risk management, fixed income and banking professionals, who seek an analytic perspective on the impact of changing standards on bank performance indicators. The workshop assumes a good understanding of existing bank accounting and analytic ratios.

COURSE OBJECTIVES

Participants will be equipped to:

- Understand the principles and measures of IFRS accounting and the differences from key national GAAP standards
- Evaluate the impact of the changes on the key financial ratios and income statement and balance sheet items
- Recognise any discrepancies between the new accounting treatment, Basel II standards and bank risk management practices
- Anticipate changes in corporate strategy and business practices as a result of the accounting change.

CONTENT OVERVIEW

- Key objectives - principles and scope of IFRS accounting
- Core issues - principles versus rules approach, fair value, substance over form, definitions of asset and liability
- Fair presentation rules - override of local tax, regulatory, dividend and pension rules

BUSINESS RISK

Loan quality

- Cost plus impairments or fair value option for loan books
- Redefining impaired loans - NPV of expected cash-flows < book value
- Impairment provisions IFRS incurred versus Basel II expected losses; incurred but not reported (IBNR) losses. individual versus collective provisions
- Key performance indicators - loan quality and reserve adequacy

Derivatives and trading risk

- Trading portfolio - key criteria for trading assets
- Fair value measurement of stand alone derivatives; treatment of netting
- Embedded derivatives - mortgages with prepayment options, hybrid debt instruments
- Hedge accounting - criteria to qualify as a cash-flow or fair value hedge; hedge effectiveness testing
- Macro hedging - EU carve out, fair value option and other approaches to solve macro hedging challenge
- Key performance indicators - main ratios affected by derivative accounting changes

Investments and other assets

- Investments held for sale and investments held to maturity; impairment accounting
- Consolidation - definitions of a subsidiary (economic versus legal control); criteria for off balance sheet treatment of an SPE
- Goodwill - purchase accounting for all business combinations; goodwill impairment tests instead of amortisation

Analytic impact

- Players most impacted by changes
- How to analyse improved disclosure of asset and loan values
- Key asset quality, earnings and capital ratios impacted by the changes

PERFORMANCE RISK

Quality and stability of income

- Revenue recognition - effective interest methodology and impact of accruing for interest on non performing loans;
- Revenue recognition - amortisation of fees
- Cost control - provisioning requirements on loans and impairment on other assets
- Cost control - impact of hidden employee costs - stock options and pensions
- Key performance indicators - alternatives to Net interest margin and ROA

Analytic impact

- Players most impacted by changes
- Key ratios impacted - revenue and expenses

FINANCIAL RISK

Funding stability and capital adequacy

- Sources of funding - classification of banking and insurance liabilities
- Securitization - de-recognition (off balance sheet treatment) requirements for special purpose entities; on balance sheet treatment of securitization vehicles
- Capital adequacy - impact of fair value and impairment adjustments on tier one and tier two capital; classification of hybrid debt instruments; rating agency definitions of core capital
- Basel II capital adequacy calculations - link between accounting and regulatory treatment
- Off balance sheet obligations - pensions and other commitments

Analytic impact

- Players most impacted by changes
- Key ratios impacted - leverage and capital adequacy

CASE APPLICATION

- Review of the impact of IFRS accounting on the financial analysis of a leading European bank.

