CREDIT RISK DISCLOSURE PRACTICES BY THE SOUTH AFRICAN BANKING INDUSTRY

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DECLARATION

I certify that the minor dissertation submitted by me for the degree Master's of Commerce in International Accounting at the University of Johannesburg is my independent work and has not been submitted by me for a degree at another university.

Donovan Koekemoer

Abstract

Post the 1930s Great Depression, the Global Credit Crisis (GCC) of 2008 saw the global economy experiencing another crisis where the financial systems of the world were on the verge of collapse. The crisis brought about heightened awareness and scrutiny over the accounting of financial instruments and the appropriateness of the accounting standard. The accounting standard at the time was International Accounting Standards (IAS) 39, which was a controversial accounting standard due to it requiring credit impairments to be based on an incurred loss model, which ultimately led to delayed recognition of provisions. However, to rectify the standards deficiencies, the International Accounting Standards Board (IASB) developed International Financial Reporting Standards (IFRS) 9, which would replace IAS 39. IFRS 9, with its effective date being 1 January 2018, introduced a new Expected Credit Loss (ECL) model that removed the reliance on loss events to recognise credit risk impairments. The new ECL model requires a new methodology of accounting for credit risk by requiring the incorporation of forward-looking elements to ensure more timely recognition of provisions. However, the ECL model brings about complexities of its own due to its high degree of estimation uncertainty given the level of judgement required and specialist skills to determine appropriate ECL levels. These accounting requirements are complex in nature and translate to enhanced credit risk disclosures required by users of the financial statements.

Given the increased accounting complexities brought about by the implementation of the IFRS 9 ECL model, enhancements have been made to the credit risk disclosures provided to the users of financial statements. This study analyses if South African banking institution's credit risk disclosure practices are able to provide financial information that is useful to users, such as investors, lenders, and creditors. This is performed by investigating credit risk disclosure practices in terms of their appropriateness, precision level, and decision-making usefulness.

To achieve the outcomes above, an empirical content analysis methodology was utilised to assess the sample of South African Johannesburg Stock Exchange (JSE) listed commercial banking institution's annual financial statements for the 2020 financial period. The content analysis of the study is further expanded into a disclosure index, which focuses on assessing the existence of credit risk disclosures and a thematic content analysis to assess the quality of the disclosures.

The findings of the disclosure index study highlighted that the South African banking institutions all have 100% compliance on their credit risk disclosures as per the requirements of IFRS 7. Instances were identified where certain disclosures would not be disclosed due to them not being applicable given the underlying business models or accounting policies utilised by the banks. The results from the thematic content analysis illustrated that a majority of the credit risk disclosure practices were ‘exemplary’. Specifically, these disclosures highlighted characteristics of precision, appropriateness, and entity specificity, which led to the provision of credit risk information that is highly useful in nature for decision making purposes. Thus, these were determined to be appropriate for use as a benchmark for other entities preparing their credit risk disclosures. Where disclosures were not ‘exemplary’ in nature, recommendations were made within the conclusion of the study.

The study makes a contribution to the existing knowledge available for credit risk disclosure practices, as well as addressing a gap in existing research surrounding these practices post the implementation of the ECL model. The study will further provide value to the IASB in the post implementation review, as well as highlighting further research topics based on the results of the research performed.

Key words

Banks

Credit risk

Disclosure

Expected credit loss

Financial statements

Global Credit Crisis

IFRS

IASB

Incurred loss

Abbreviations

Abbreviation	Description
EAD	Exposure At Default
ECL	Expected Credit Loss
ESMA	European Securities and Markets Authority
FLI	Forward Looking Impairments
FRC	Financial Reporting Council
GCC	Global Credit Crisis
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
LGD	Loss Given Default
SARB	South African Reserve Bank
SICR	Significant Increase in Credit Risk
PD	Probability of Default

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CHAPTER 1 – RESEARCH STUDY INTRODUCTION

1.1 Background

Following the Great Depression in the 1930s, the global economy experienced another historical financial crisis, known as the Global Credit Crisis (GCC) which took place during 2008 (Tooze, 2018). During this GCC, the world's financial systems were on the verge of failure with the credit markets grinding to a halt in terms of their functionality (Arner, 2009; Gurtner, 2010). Specifically, the GCC saw the collapse of numerous investment and commercial banking institutions, which affected commercial lending activity within the global economies (Barth & Landsman, 2010; Crotty, 2009).

The root causes of the GCC can be attributed to many different factors, the most prominent being excessive borrowing and lending transactions taking place within a financial system that lacked sufficient transparency (Arner, 2009; Farhi & Cintra, 2009). Excessive credit transactions were prevalent within subprime residential mortgages, which can be defined as mortgage loans that have been extended to persons with low or incomplete credit scores or histories leading to the loans having a nature of increased credit risk (Britannica, n.d; Corporate Finance Institute, n.d.). However, other financial asset classes within commercial real estate, corporate credit, commodity trading, and equity trading also contributed to the rise of the crisis (Arner, 2009; United States Financial Crisis Inquiry Commission, 2011). These lending transactions took the form of a variety of structures based on the principles of securitisation that allowed loans, such as securitised mortgage loans, to be packaged as collateral for the issuing of securitised debt. These packages allowed for future cash flow streams to be transformed into present value capital allowing for additional excessive lending to take place (Arner, 2002).

The GCC, originating from the credit and sub-prime crisis, created heightened awareness and scrutiny with regards to the accounting of financial instruments and the appropriateness of the accounting standard (Haji, Marx & Coetsee, 2014). The financial instruments guiding principles at the time were based on the International Accounting Standard 39 (IAS 39) which, even before the GCC, was a controversial area of financial reporting (Groff & Mörec, 2020). The GCC identified inherent issues with IAS 39, specifically around its complexity and increased opacity of financial instrument accounting. Further to this, IAS 39 impairment losses were recognised based on an incurred loss model relying on objective evidence regarding the collectability of loans as governed by their underlying contractual terms (Duh, Hsu & Alves, 2012). This requirement for objective-based evidence before credit loss impairments could be recognised led to the incurred loss model being seen as untimely and insufficient with regards to the recognition of credit risk impairments within financial assets that ultimately played a key part in the GCC (Financial Stability Forum, 2009; Gaston & Song, 2014; Novoa, Scarlata & Solé, 2009). This untimely impairment recognition, specifically seen where banking institutions would not be required to recognise increased credit impairments, when there are signs of increased credit risk and deterioration in macro-economic factors negatively affecting financial assets. This lack of timely provisioning of credit risk ultimately led to financial reporting and decision-making being based on delayed credit risk positions, ultimately affecting the markets' functional ability (Novotny-Farkas, 2016). These limitations within IAS 39 led to an increased focus on the role of financial reporting and the standard setting process' contribution to the GCC, including the call for a forward-looking prevention in the form of pre-emptive recognition of impairments based on Expected Credit Loss (ECL) events (Barth & Landsman, 2010).

The G20, being an international forum of the main world economies aimed to manage economic policies with regards to the global economy met for the first time in 2008 following the GCC (Organisation for Economic Co-operation and Development, n.d.). The G20 highlighted the need to improve financial instrument reporting standards to eliminate inefficiencies highlighted by the GCC. To achieve this, the forum created the mandate for the development of a new financial instruments accounting standard (Groff & Mörec, 2020). The International Accounting Standards Board (IASB) through its standard setting process began creating a comprehensive response in the form of updated financial reporting standards in order to address the concerns highlighted by the GCC. The IASB through its complex investigative processes acknowledged that the incurred loss model under IAS 39 allowed for too much leniency, particularly within the banking industry with regards to the recognising of impairments, opening up opportunities to postpone recognition of impairment for an extended period of time (Hoogervorst, 2018). In order to address and prevent future repetition of financial accounting's role in global events, such as the GCC, the IASB developed the International Financial Reporting Standard (IFRS) 9.

During July 2014, the IASB published IFRS 9 in its totality, replacing the majority of the financial reporting guidance contained in IAS 39, with the effective date set for all entities with financial years beginning on or post 1 January 2018 (International Finance Reporting Standards Foundation, 2021a; Price Waterhouse Coopers, 2014). The new standards creation was specifically designed by the IASB to address the deficiencies identified by critics of IAS 39, as well as being a prevention of a future GCC (International Finance Reporting Standards Foundation, 2021d), specifically stemming from the banking industry. The IFRS 9 brought about significant principle changes regarding the recognition and measurement of credit impairment losses.

IFRS 9 introduced a newly developed ECL model with regards to the recognition of credit impairments, which would replace the incurred loss model under IAS 39. The new ECL model created by the IASB was specifically designed to not require the occurrence of a loss event to recognise impairment losses within the financial statements. The IASB, through the creation of IFRS 9, ensured that three key objectives were achieved. These were to firstly, ensure that the recognition of impairment losses is timely as compared to the IAS 39 incurred loss model. Secondly, it was meant to create a means for financial assets to be identifiable that have experienced a Significant Increase in Credit Risk (SICR) since initial recognition from those that have not. Lastly, it also ensured that entities recognise more appropriate ECLs in their annual financial statements (Ernst & Young, 2018).

The new IFRS 9 model specifically incorporates a forward-looking element with regards to the measurement of ECLs to address the criticisms of the incurred loss model regarding the untimely and delayed recognition of impairments (Hoogervorst, 2018). This was implemented through the measurement of ECLs requiring the recognised impairment value to reflect an unbiased and probability-weighted quantitative value, the principles of time value of money, as well as information regarding future macro-economic conditions (International Financial Reporting Standards Foundation, 2021a). IFRS 9 further introduced a new two-step model, where entities are required to recognise and measure impairments in the financial statements at either 12-month ECL or lifetime ECL (Ernst & Young, 2018). The first step being the 12-month ECL representing the portion of ECL over the lifetime of the financial asset, which is expected through default events over a period of 12 months after an entity's reporting date. The second step being the lifetime ECL representing the ECL resulting from expected default events over the assets expected life (International Financial Reporting Standards Foundation, 2021a). The IASB envisaged a staged system for the application of this new methodology to ECL measurement, which would lead to more appropriate impairment recognition, for example (International Financial Reporting Standards Foundation, 2021a; KPMG, 2014; Price Waterhouse Coopers, 2014):

- Stage 1 ECL: Financial assets classified as Stage 1 instruments would receive impairment recognition based on a 12-month ECL, as they have not experienced a SICR since their initial recognition.
- Stage 2 ECL: Financial assets are classified as Stage 2 instruments when they have experienced a SICR since their initial recognition. However, within this stage there is not yet objective evidence of impairment. Impairment on these instruments would be based on lifetime ECLs.
- Stage 3 ECL: Financial assets are classified as Stage 3 instruments when the instrument has experienced objective evidence of impairment. Impairment on these instruments would be based on lifetime ECLs.

Through this measurement guidance, the IASB ensured that entities impairment recognition would reflect the credit quality patterns of financial assets in terms of credit risk deterioration or improvement (Ernst & Young, 2018). This being in line with the IASB's main objective in creating financial reporting standards that provide useful information to the users of the financial statements (International Financial Reporting Standards Foundation, 2021b). The IASB's creation of IFRS 9 aims to appropriately address the need for more useful credit information regarding the amount, uncertainty, and timing of credit risk to address prior inefficiencies in IAS 39 highlighted during the GCC (International Financial Reporting Standards Foundation, 2021a).

With the implementation of IFRS 9 and the incorporation of the new ECL model, changes to the existing credit risk disclosures also needed to be updated to incorporate these updates for users of the financial statements. IFRS 7, which governs the disclosure requirements for financial instruments, was implemented in 2005 after replacing the previous governing standard being IAS 30, which had been in place since 1990 (International Financial Reporting Standards Foundation, n.d.). Post IFRS 7's implementation, the IASB incorporated significant updates to the standard to enhance the credit risk disclosures requirements to meet the informational needs of users, specifically around the implementation of the new ECL impairment model (International Financial Reporting Standards Foundation, 2021e). The IASB's update of IFRS 7 for the ECL model aimed at ensuring that users are able to understand the underlying credit risk management practices of management, understand an entity's risk profile, and all the aspects of ECL recognition processes within an entity (International Financial Reporting Standards Foundation, 2021e).

1.2 The research problem

There has been previous research performed regarding compliance with IFRS 7 credit risk disclosure requirements from an IAS 39 perspective, which have included South African listed commercial banks. One such study was performed by Mantloana (2016) whose research led to the conclusion that the major commercial banks within South Africa were compliant with the credit risk disclosures governed by the incurred loss model. His research further noted that the disclosures presented by the banks did provide users with useful information on which to base their decisions.

However, the previous disclosure content analysis research papers specifically assessed credit disclosure compliance under the incurred loss model in IAS 39. Thus, there is a gap in the current research base over IFRS 9 ECL credit disclosure compliance from a South African banking perspective, which has enhanced complexities. These complexities stem from the increased demand for specialist judgement and increased volatility introduced by the combination of historical behavioural regressions with forward-looking macroeconomic conditions (Deloitte, 2016; Frykström & Li, 2018). Given the overall increased complexity of the ECL models implementation, this raises the following question:

Research problem:

Are the South African banking institution's credit risk disclosure practices able to provide financial information that is useful to users, such as investors, lenders, and creditors?

The research problem is critical given the current economic landscape of South Africa. Not only has the South African banking industry had to navigate through uncertain times brought about by the Covid-19 pandemic but also other key economic risks. The most noticeable being that of increasing petrol prices, significant power cuts (load shedding) and a challenged economy. These factors have a significant impact on the credit risk of loans issued by banking institutions which leads to volatility and rapid changes within ECL provisions. Given these effects on the bank's loan business models and ultimate value creation ability, it is extremely important that users are able to understand how the banks are managing changing levels of credit risk. However, it is only possible for users to fully grasp the effects of economic risks on a banking institution's overall credit risk levels through financial information that is useful in nature for decision making purposes.

1.3 Aims and objectives of the study

In terms of the research problem discussed above, the research objective is to investigate the credit risk disclosure practices of the South African Johannesburg Stock Exchange (JSE) listed commercial banks to determine their appropriateness, precision level, and decision-making usefulness from an ECL model perspective.

Decision usefulness is aimed at ensuring that financial reporting is able to provide suitable financial information to allow investors, lenders, and creditors to make informed decisions regarding resource provision. This is especially important where the stakeholders mentioned prior do not have access to information directly from reporting entities and their reliance is based significantly on the financial information provided in their annual reports (International Financial Reporting Standards Foundation, 2021b).

The appropriateness and precision level of accounting disclosures can be defined as its overall reliability, relevance, and accuracy. These are important attributes that users depend on with regards to financial information that is used for decision making purposes (Downen, 2014). These attributes for useful information are supported by the IASB, as seen in the qualitative characteristics, which promote useful information in the Conceptual Framework (International Financial Reporting Standards Foundation, 2021b). Given this, these attributes are underlying factors that underpin what is useful information to users as without these attributes, disclosure's reliability for decision-making is questionable.

This research study is specifically aimed at assessing the decision making usefulness of credit risk disclosure practices by assessing whether appropriate information has been provided to users to meet the objective of IFRS 7 being to "enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks" (International Financial Reporting Standards Foundation, 2016c: para.1). Further to this, based on the results obtained, the study will assess whether the South African banking industry should be used as a reference point or benchmark with regards to how entities in general that apply IFRS should disclose credit risk information.

1.4 Research methodology

The research study methodology utilised is that of an overarching empirical disclosure content analysis with further underlying methodologies incorporated. These further methodology subsets expand the research into a disclosure index study and a thematic content analysis. The incorporation of these methodologies allows for an in-depth and robust assessment of the different South African banking institutions credit risk disclosures within their annual financial statements. Further details regarding the research methodologies are described in Chapter 3.

1.5 Limitations of the research study

One of the main limitations inherent in the study is due to its focus and scope being confined specifically to South African listed commercial banking institutions. The conclusions reached in the study are therefore specific to the commercial listed banks selected as part of the sample and thus, may not be comparable or have the ability to be implied onto other banking institutions outside of the sample. Further to this, due to the banks being specific to a South African context, the results obtained through the research may not be applicable to banks globally.

Steenkamp and Northcott (2008) describe the use of content analysis methodologies in accounting to be growing and expansive. Weber (1990) however makes mention of one of the weaknesses of content analysis being its reliance on the judgement of the researcher through their interpretation of the data. Thus, it must be noted that the research study and the findings produced are subject to interpretation, which may not be comparable to those of other researchers.

1.6 Motivations for the study

There have been numerous studies which have noted the possibility that the previous accounting standards incurred loss model under IAS 39 was a contributing factor to the GCC (Barth & Landsman, 2010; Bischof, Laux & Leuz, 2021; Deloitte, 2010; Rouault, 2014). However, this weakness found within the incurred loss model has been addressed by the IASB with their introduction of the ECL model through the implementation of IFRS 9. The dissertation is thus motivated to assess whether the ECL model disclosure requirements mandatory as under IFRS 7 are addressing the concerns appropriately, as highlighted in IAS 39 within the South African listed commercial banks. The perspective being that should the new ECL credit risk disclosures meet the objective outlined appropriately in IFRS 7, users of the financial statements would be provided with useful information that would play a factor in potentially mitigating a future credit crisis.

Further to the above, the motivation for the study is to provide meaningful findings and insights, which will contribute positively to the existing scholarly literature around credit risk. The study will also provide further insight into credit risk from a South African commercial banking perspective that could contribute to the IASB's recently publicised decision to start its post implementation review of IFRS 9.

1.7 Ethical considerations and compliance

The research performed to compile this dissertation has been conducted in a manner that has taken into account all professional confidentiality requirements. The information utilised within the dissertation, as it relates to the banking institutions, were the annual financial statements. These documents are publicly available from each of the respective institution's official websites; thus, no contraventions of professional confidentiality requirements have occurred. All other information contained within the research study has been appropriately referenced to their original sources to ensure credit is given where it is due.

To ensure that the banking institution's privacy is maintained when performing the assessments contained within this document, no references are made to the specific names of the banks.

The credit risk disclosure rating scales and research methodologies have been reviewed by the supervisors of the research study to ensure that the appropriate ethical considerations are met before the commencement of the study. Further to this, the University of Johannesburg's School of Accounting Research Ethics Committee has reviewed and granted ethical approval for the research project to be conducted. Refer to Annexure D for the formal approval obtained.

1.8 Research study structure

CHAPTER 1: RESEARCH STUDY INTRODUCTION

The introductory chapter provides the necessary background to the research study. There is focus on ensuring that sufficient information is provided to allow for the key concepts underlying the research to be understood. These concepts specifically revolve around credit risk disclosures within banking institutions post the ECL model's implementation. The chapter further expands into an overview in terms of the dissertation's (i) specific research problem; (ii) research objective and aims; (iii) a high-level discussion around the research methodologies incorporated; (iv) limitations of the study; (v) research motivation; and (iv) the underlying ethical considerations and compliance.

CHAPTER 2: LITERATURE REVIEW

The literature review chapter focuses on assessing ECL credit risk disclosures from three perspectives in order to identify areas that require focus within the research study. The specific topic areas of literature researched is the IFRS 7 disclosure requirements, thematic reviews of the current reporting practices and academic literature focused on credit risk.

CHAPTER 3: RESEARCH METHODOLOGY AND APPROACH

This chapter details the adoption and rationale of the research methodology utilised to undertake the study. The chapter further addresses the sample rationale, as well as the sources of information on which the research methodologies are applied.

CHAPTER 4: RESEARCH RESULTS

The results chapter focuses on detailing the findings obtained through the application of the research methodologies utilised in the study on the predetermined sample. The outcomes of each of the respective tested bank's credit risk disclosures, as defined in IFRS 7, are documented and analysed within this chapter.

CHAPTER 5: CONCLUSION

The conclusory chapter provides the overall conclusions of the research study. It provides details regarding how the research problem was addressed through the objectives and aims of the study. The chapter further provides detail over additional areas of possible study stemming from the conclusions reached.

1.9 Chapter conclusion

The chapter is utilised to set out the introduction for the research study, which includes a background of the development of the IFRS 9 ECL model stemming from the GCC and the inadequacies of the incurred loss model under IAS 39. This credit risk background then translates into the research problem on which the study is based. Further to this, the chapter lays out the research objective and high-level summary of the research methodologies utilised in order to obtain sufficient data on which further assessment will be based. The chapter also covers the limitations of the study, the motivation for the performance of the research study and applicable ethical considerations required for the project to be conducted. Lastly, the chapter provides a high-level explanation of the research study's structure that will be followed.

CHAPTER 2 – LITERATURE REVIEW

2.1 Literature review introduction

The GCC highlighted deficiencies within the accounting standards utilised by entities to determine credit risk impairments. At this time, the incurred loss model under IAS 39 was utilised to calculate impairments on financial assets, which were determined to be untimely in nature given that the recognition of impairment required a loss event to have taken place (Financial Stability Forum, 2009; Gaston & Song, 2014; Novoa, Scarlata & Solé, 2009). This led to the IASB's creation of the IFRS 9 ECL model, which would resolve these inadequacies of the incurred loss model. The ECL model did this by not requiring a loss event to take place before credit impairments are recognised, leading to more timely recognition of impairments on financial assets (Ernst & Young, 2018). Further to this, the new ECL model requires the impairment amount recognised to reflect an unbiased and probability-weighted quantitative value, the principles of time value of money, as well as information regarding future macro-economic conditions (International Financial Reporting Standards Foundation, 2021a).

The literature review chapter is aimed at explaining and assessing the development of the ECL model, as well as any current disclosure practices to position the study in the current literature. This is performed through assessing the existing literature to provide a solid foundation on which this research study is based. To ensure that the literature review of the research study is diverse in the nature of information analysed, the structure of the review will follow a systematic analysis of current literature within three specific focus areas. Firstly, the literature study will assess the specific credit risk disclosure requirements, as prescribed by the IASB in IFRS 7 to explain and provide an understanding of the focus area of this research study. Given that the study is focused on credit risk disclosures from a post ECL model perspective, it is important to set a base understanding of the requirements and history of the impairment model's development. Secondly, externally performed thematic reviews by reputable bodies on current credit risk disclosure practices will be analysed to assess the current state of credit disclosures. This will inform the research study's focus areas and highlight its need within currently available literature. Lastly, academic scholarly literature will be assessed to gain a deeper understanding of current research being performed surrounding credit risk disclosures to ensure that the research study is relevant and will also provide positively to the pool of available literature. Therefore, in summary, the following categories below will be assessed:

i. Credit risk disclosure requirements contained within IFRS 7
ii. External thematic reviews on current credit risk disclosure practices; and
iii. Academic literature focused on credit risk.

2.2 Credit risk disclosure requirements contained within IFRS 7

Post the GCC, starting in 2007, the IASB acknowledged that users of financial statements urgently needed an improvement regarding disclosure of financial instruments, which inherently positioned the need for enhanced credit risk disclosure (International Financial Reporting Standards Foundation, 2021d). The primary areas of enhancement required within credit risk, specifically aim at the degree of complexity within the incurred loss model due to the multiple approaches available, as well as the impact of delayed credit loss recognition (International Financial Reporting Standards Foundation, 2021d). Hashim, Li, and O'Hanlon (2016) concur with this, noting the untimely lag in the credit loss recognition brought about by the incurred loss model. These inadequacies of the incurred loss model highlight the importance and need for the improved ECL model in order to enhance credit risk management practices within banks. Therefore, providing more sound provision recognition and delivery of enhanced disclosures providing transparency within institutions around credit risk. These factors ultimately lead to greater market confidence due to more useful financial information disclosure for enhanced decision making (Cohen & Edwards, 2017).

The criticisms lead to the IASB enhancing the existing IFRS 7 disclosures to ensure that there is additional information to address users' needs. The enhancements in IFRS 7 specifically focus on the incorporation of the ECL model, which is introduced by IFRS 9. A crucial element around creating the updated credit risk disclosures is determining what is considered useful and relevant information, which the IASB determined is information that allows the users of financial statements to predict amounts, timing, and uncertainty related to cash flow in the future (International Financial Reporting Standards Foundation, 2021e). The improvements around credit risk disclosures take the form of qualitative and quantitative disclosures with the following three objectives, as determined by the IASB, which ensures users understand:

a) "an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses" (International Financial Reporting Standards Foundation, 2021e: para. BC48C(a));
b) "the amounts in the financial statements that arise from expected credit losses that are measured in accordance with IFRS 9, including the changes in the estimate of expected

credit losses and the reasons for the changes" (International Financial Reporting Standards Foundation, 2021e: para. BC48C(b)); and

c) "an entity's credit risk profile (ie the credit risk inherent in an entity's financial instruments), including significant credit concentrations at the reporting date" (International Financial Reporting Standards Foundation, 2021e: para. BC48C(c)).

These objectives, as noted by the IASB, have translated into specific disclosure subtopics within required credit risk disclosures. On a collective basis, these sub objectives and disclosures are crucial in meeting the main credit risk objective of IFRS 7, which is to "enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks" (International Financial Reporting Standards Foundation, 2021c: para.1(b)). The main aspects within these credit risk subtopics are discussed separately and are as follows:

a) The credit risk management practices;
b) Quantitative and qualitative information about amounts arising from expected credit losses;
c) Credit risk exposure;
d) Collateral and other credit enhancements obtained; and
e) Quantitative and qualitative disclosures implemented by the IASB to meet the objective of IFRS 7.

2.2.1 The credit risk management practices

Credit risk management practice disclosures are critical disclosures given the level of judgement and estimation uncertainty required to determine an appropriate ECL. Further to this, there is additional complexity due to the many methodologies and techniques that vary among different entities. Large banking institutions will have diverse concentrations of credit risk exposure due to the diverse portfolios and product offerings provided to the public, all of which require different management practices. By ensuring that these credit practices are sufficiently disclosed, users thus understand the diverse nature of credit risk exposures, as well as entity specific methods of managing those risks (International Financial Reporting Standards Foundation, 2021e).

Credit risk and its overall management is an area that is extremely modified to each entity, specifically around the calculation of appropriate impairment recognition to which entities have various models that are often not comparable. Given the advanced and statistical nature of the large institutional ECL models, the assumptions, inputs, and information are crucial disclosures that allows users to understand how the requirements of the IFRS 9 are incorporated within the entity. The IASB note their expectation of vastly different resulting disclosures from different entities given the variety of information and statistical methodologies that can be incorporated to account for credit risk (International Financial Reporting Standards Foundation, 2021e). These differences within practice highlight the importance of entity specific disclosures, as users are unable to derive value from credit risk disclosures that are boilerplate (generic and not entity specific) in nature.

A crucial element in disclosures is its forecasting value, which is considered a crucial input into disclosures to generate useful information (Papaj-Wlisłocka & Strojek-Filus, 2019). This view is shared by the IASB who ensures that credit risk disclosures are enhanced to allow users to understand how forward-looking information, which includes macroeconomic variables through probability weighted case scenarios are utilised to determine the ECL. As this is a key element on which the ECL model was developed, it is deemed extremely important to allow users an understanding of the reasonableness behind these variables and projections, as it may affect decision making processes (International Financial Reporting Standards Foundation, 2021e).

During the GCC, it became evident that there was a lack of disclosure regarding the effects of financial instrument modifications and restructuring. These take place where there has been an alternation in the terms and conditions of the original contractual agreements to assist a borrower who is experiencing financial distress in terms of the repayment of their loans. The only difference between these two mechanisms in a banking context is that modifications are governed by the South African National Credit Act 34 of 2005 whilst restructures are governed by directives issued by the South African Reserve Bank (SARB). The enhanced modification disclosures brought about by the implementation of IFRS 9 is aimed at allowing users access to useful information that allows them to understand the amount of modifications occurring, the effect of modifications on credit risk, and the credit risk management practices around these modifications (International Financial Reporting Standards Foundation, 2021e).

2.2.2 Quantitative and qualitative information about amounts arising from expected credit losses

Critical elements within the ECL model, that are essential for users of the financial statements to be able to interpret, are an entity's exposure and loss allowance accounts. An outreach programme which was performed by the IASB identified that the change within a financial instrument's exposure and the related effect on the loss allowance is imperative in understanding the entity's credit risk management processes (International Financial Reporting Standards Foundation, 2021e). Given this, the IASB introduced specific disclosures in the form of two reconciliations (IFRS 7 paragraph 35H and paragraph 35I) regarding the changes in the gross carrying amount of financial instruments and the other focused on the loss allowance (International Financial Reporting Standards Foundation, 2021e).

These essential elements are further expanded upon by the board, which enhances the requirements of IFRS 7 to ensure that there is adequate division between those financial assets where impairments are recognised at the 12-month ECL, as opposed to the lifetime ECL. This focus in segmenting these two impairment measurement bases ensures that users understand the various levels of risks within groups of financial assets. These separations further allow users to understand how the underlying components, such as write-offs, recoveries, newly issued financial instruments, deterioration in credit risk, or modifications impact the different measurement groupings and the extent of these impacts (International Financial Reporting Standards Foundation, 2021e).

Another area of focus of the board brought about due to the implementation of the ECL model is the concept of originated credit-impaired assets. Financial assets are determined to be credit-impaired when an event has occurred that has led to increased credit risk, ultimately affecting the recoverability of the future cash flows expected. The IASB enhanced disclosures regarding these instruments by requiring disclosure around the undiscounted ECL contained in the initial pricing. This focus area alleviates the burden of the users around this specific complex area of accounting and to allow them to understand the expected future cash flow of such items should changes in credit losses occur (International Financial Reporting Standards Foundation, 2021e). In particular, users are able to understand the ECL contained within initial pricing considerations of originated credit-impaired financial assets, where lenders base the initial value on factors, such as credit scores or other credit risk measurements (Kagan, 2020). Users are thus not required to assess credit risk spreads and its effects on pricing when trying to analyse the credit risk of financial assets impact on future cash flows.

2.2.3 Credit risk exposure

The significant judgement, estimation uncertainty, and the manner in which credit risk management is approached by institutions creates an issue with regards on how to disclose exposure in a manner that provides users with useful information for decision making purposes. Given the entity's specific nature over credit risk estimation, the IASB ensured the updated IFRS 7 is aligned to deliver disclosures that are in line with an entity's internal credit risk methodologies. This for example is incorporated into the reconciliations noted previously in the research study. Through this enhancement, the IASB notes that users will receive more useful and relevant information as follows (International Financial Reporting Standards Foundation, 2021e):

- An understanding of specific entity credit risk management approaches;
- Users are provided with enhanced insight into an entity's credit exposures;
- Enhanced insight into credit risk movements and changes within the overall credit risk being experienced; and
- Allows users to understand where the main drivers of credit risk change exist within an entity's context.

2.2.4 Collateral and other credit enhancements obtained

In measuring ECL, the IASB has requirements with regards to disclosures around how the value of collateral or credit risk mitigation instruments are incorporated into the calculation of ECL. These disclosures take the form of both quantitative and qualitative disclosures to ensure useful information is delivered to users of the financial statements to understand the level of ceded security and the related credit risk of instruments (International Financial Reporting Standards Foundation, 2021e).

Further to the above, the IASB included specific requirements that are compulsory to be disclosed around collateral held. These disclosures take the form of ensuring there is adequate disclosure around the nature and quality of collateral, as well as any changes in the underlying quality of collateral, which could either be due to deterioration or accounting policies enacted. Further to this, the IASB requires disclosures to illustrate the extent to which credit impairments are not recognised due to the collateral held (International Financial Reporting Standards Foundation, 2021e). The purpose of the disclosure linking closely with the objective of IFRS 7, allows the users of the financial statements the ability to evaluate the nature and extent of credit risk that an entity is exposed to at the end of its financial reporting period (International Financial Reporting Standards Foundation, 2021e).

2.2.5 Quantitative and qualitative disclosures implemented by the IASB to meet the objective of IFRS 7

Reference is made to the objective of IFRS 7, which is to "enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks" (International Financial Reporting Standards Foundation, 2016c: para.1). As discussed within this section of the literature review, the IASB has implemented these specific credit risk disclosure requirements within IFRS 7, which encompasses both qualitative and quantitative disclosures. The IASB has deemed the mix of required qualitative and quantitative disclosures, which have been disclosed in Annexure A, to be sufficient in the role of providing useful credit risk information and meeting the objective of the IFRS 7 (International Financial Reporting Standards Foundation, 2021c). These specific disclosure requirements will form the base disclosures on which the research study will perform the analysis and results reported.

2.3 External thematic reviews on current credit risk disclosure practices

The Basel Committee on Banking Supervision (2015) stresses the importance of incorporating credit risk disclosure implementation from a banking perspective to resolve the weaknesses within the incurred loss model. This, with the aim of ensuring that the core principle of financial information is maintained. Which is ultimately to provide useful, transparent, and comparable information. The principle is ultimately aligned with the IASB's main reporting objective, which is to provide useful financial information to users of financial statements (International Financial Reporting Standards Foundation, 2021b).

The JSE frequently performs pro-active monitoring of the South African Stock Exchange listed entities as part of its operating responsibilities. This monitoring process has coverage over entities with a primary listing on the JSE whilst ensuring that there is appropriate representation from diverse industries, sizes of listed entities, as well as the audit firms engaged in assurance services (Johannesburg Stock Exchange, 2019a). Further to this, the samples incorporated by the JSE in their thematic reviews, not only include banking institutions, but a wide range of entities of varying natures in terms of their operations or industries. This monitoring exercise has the specific objective of contributing to the generation of enhanced quality financial reporting in the capital market (Johannesburg Stock Exchange, 2021). The JSE has noted in its thematic review that most of the findings around the disclosure of credit risk follow a specific trend. The trend being that disclosures are often insufficiently detailed and not entity specific, especially around the following summarised key disclosure paragraphs of IFRS 7 in Table 1:

TABLE 1: JSE thematic review findings related to credit risk disclosures

JSE identified area of deficiency	**JSE credit risk thematic review findings detail:**
IFRS 7, par 35B	Insufficient detail is disclosed to ensure that the users of issued financial statements have sufficient understanding regarding the timing, amount, and uncertainty of an entity's future cash flows or how this has changed when compared to the prior year (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35G	There are insufficient disclosures around methods, assumptions, and inputs utilised within the expected credit loss models; this includes the use of macroeconomic variables utilised in ECL scenario testing. Further to this there is a lack of disclosure in terms of how the forward-looking variables are integrated into the ECL models or as separated linkage models, as these are often not entity specific but could rather be considered boilerplate (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35B(c)	There is often insufficient detail with regards to disclosures for off-balance sheet exposures to allow users the understanding where these arise from and their nature. Thus, the concentrations have not been addressed in an entity specific manner (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35I	There is often a lack of detail with regards to how significant changes arise within the gross carrying values of recognised financial instruments that contribute to a change within the IFRS 9 credit loss allowance (Johannesburg Stock Exchange, 2021).

IFRS 7, par 35H	Credit risk disclosures often lack sufficient and specific disclosures to allow users to understand the detail of changes in ECL amounts (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35M and 35N	Entities often have inappropriate disclosure bands when it comes to aggregation of specific bands/types of customers, as well as ageing buckets (days overdue groupings). This reduces the overall usefulness of the information as the level of detail is not sufficient enough to allow users to understand the underlying population (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35B, 35F and 35G	When ECL impairments are considered immaterial to the financial statements, the preparers of the financial information do not appropriately disclose this with a supportable rationale (Johannesburg Stock Exchange, 2021).
IFRS 7, par 35F(e)	Entities would often not disclose the write-off policies within the financial statements, which is often a sizeable portion of the ECL amount (Johannesburg Stock Exchange, 2019a).
IFRS 7, par 35L	Issuers often do not include disclosures regarding the portion of write-offs that the entity has linked to enforcement activity (Johannesburg Stock Exchange, 2019a).

Similar to that of the JSE, but from an international perspective, the Financial Reporting Council (FRC) has a set of thematic reviews that they perform to highlight deficiencies within corporate reporting and to inform better disclosure practices (Financial Reporting Council, 2020b). Specifically, the FRC has maintained focus on financial instrument ECL provisions, given its complex nature. To achieve this, the FRC ensures that the scope encompasses a vast array of industries listed on the London Stock Exchange to ensure that there is a broad assessment performed (Financial Reporting Council, 2021b). Based on the thematic review performed for entities with 2020 financial year ends, the areas of deficiency identified by the FRC, as requiring improvement, are summarised below:

a) Disclosure regarding changes to utilised credit risk assumptions were not adequately explained to users (Financial Reporting Council, 2021b);
b) Insufficient disclosure regarding the selected bands of credit risk concentrations (Financial Reporting Council, 2020a);

c) Disclosures identify the calculation of ECL as a significant estimate; however, there is a lack of sensitivity analysis provided (Financial Reporting Council, 2020a);
d) The Covid-19 pandemic brought about severe disruption to ECL models; however, this impact was either not disclosed in the financial statements, or did not provide enough information to allow users to understand the extent of the impact (Financial Reporting Council, 2020a);
e) Disclosures regarding entity specific inputs, assumptions, and methodologies to calculate the ECL amounts were often missing (Financial Reporting Council, 2021a); and
f) Credit risk management disclosures were found to be missing. This specifically regarding entity specific definitions of default and other credit risk definitions mentioned within the financial statements (Financial Reporting Council, 2021a).

The IASB has recently publicised its decision to start its post implementation review of IFRS 9. The manner in which this review has been structured, is similar to how the IASB developed IFRS 9, which is through three phases namely, classification and measurement, impairment, and hedging (International Financial Reporting Standards Foundation, 2020). The European Securities and Markets Authority (ESMA) responded to this request by the IASB and created a report summarising the thematic review results of banking institutions disclosures. Specifically, this review focused on banking institutions of varying sizes across 21 jurisdictions with 2020 financial year ends. The results have shown improvements within credit risk related disclosures; however, there is definite room for improvement. These improvement areas specifically focused on the lack of entity specific disclosures and the need for more disclosures around key areas, which are outlined below. Through a review of the report, the following areas of disclosure improvements were identified, lying specifically around credit risk and are noted below (European Securities and Markets Authority, 2021):

a) Banks within the sampled population did not provide sufficient entity specific disclosures when it came to 12-month and lifetime ECL measurements, write-off points, management overlays, and the application of judgement within the application of IFRS 9. These were often boilerplate disclosures;
b) The disclosure around SICR disclosures followed the same pattern of being generic with little application to the specific entity in terms of how SICR is determined;
c) Forward Looking Impairments (FLI) within banks often do not have specific disclosures surrounding important elements, such as the significant judgements and areas of

estimation uncertainty with regards to the macroeconomic scenarios (bear, bull, and base scenarios). This deficiency was further identified with regards to the methodologies implemented to weight the different scenarios;

d) A lack of detail with regards to the movement in the IFRS 9 loss allowance is identified with banking institutions either not providing sufficient detail or providing no detail at all. This specifically around the areas of inappropriate disaggregation of instrument class and lack of qualitative information provided to justify any changes encountered;

e) Qualitative data regarding the exposure to credit risk within entities are noted to be of a high quality; however, lacking when it comes to narrative disclosures around the quantitative results; and

f) ECL sensitivity disclosures are often found to not be at an appropriate level of disaggregation. This issue further expands on in terms of the banks not providing sufficiently detailed explanations with regards to changes from the prior period over assumptions utilised.

A common theme identified within the thematic reviews performed, is that of boilerplate disclosures specifically over credit risk within the financial statements. The United Nations (2017) are in full agreement that boilerplate disclosures of credit risk information lead to reports not being useful to investors and analysts due to material entity specific information being omitted. This notion is supported by Hoogervorst (2013), who regards the use of boilerplate disclosure of financial information not being useful for users' decision-making processes. The IASB realises the effects of boilerplate information and notes that the objective with regards to credit risk disclosures is to inform users of the financial statements how the specific entity deals with credit risk management (International Financial Reporting Standards Foundation, 2021e). The IASB further notes that they expect there to be a significant level of judgement involved, given the different approaches that entities take. They consider these differences between entities as useful and relevant, as they highlight the entities prediction of cash flow uncertainty and its specific timing (International Financial Reporting Standards Foundation, 2021e). This principle of ensuring disclosures is entity specific in providing useful information is also well-supported within the school of accounting (Henderson, 2016; Lang & Stice-Lawrence, 2015).

It is important to ensure that these disclosure deficiencies around credit risk are addressed to ensure that financial statements adapt and react to rapid changes in a manner that provides useful information to users. Specifically, as seen with the recent Coronavirus pandemic, it is noted by KPMG (2021) that many banking institutions credit models were not calibrated to take into account the significant impact that an outbreak such as Covid-19 could have on the economy or the subsequent relief measures implemented by the government. This led to significant changes to the recognised provision coverages of the bank's lending portfolios. In stressed scenarios, where significant adjustments to recognised provisions are made, it is important that users of the financial statements are provided with useful information in order to perform their impact assessments and decisions.

The findings within current practices around credit risk have informed the research performed in this study. With the study focused on identifying if current disclosure practices within the listed South African commercial banking institutions are at the appropriate quality for users. This being specifically in terms of the users access to useful information for decision making processes or if there is a lack of disclosure quality which will be reported, and recommendations made.

2.4 Academic literature focused on credit risk

There have been specific studies around the implementation of the ECL model and its impacts from a quantitative financial statement perspective. Sultanoğlu (2018) notes from his studies that the ECL model overall increases impairment losses within banking institutions stemming from banking institutions holding more provisions on Stage 1 and Stage 2 classified loans than compared to the incurred loss model. He further identifies that the ECL model provides an initial day one impact on the statement of profit or loss when banks record loans classified at amortised cost or through fair value and other comprehensive income (KPMG, 2022; Sultanoğlu, 2018). This statement is supported by the research study of Sánchez (2018) who notes that overall, the ECL model brings about higher provisioning levels in a timelier manner. The removal of the trigger events to recognise credit provisions leads banks to be more flexible in their communication of the expectation of losses to shareholders through enhanced credit risk disclosures under IFRS 7 (Kim, Ng, Wang & Wu, 2021). Sánchez (2018) further notes the importance of understanding credit impairments under IFRS 9 as it has a significant impact on other aspects within the financial statements, such as a direct impact on how interest income within banking institutions is calculated under the various stages introduced by IFRS 9.

Disclosures within the financial statements are deemed an important tool through studies performed by Sánchez (2018) due to its ability to reduce the modelling risk (the risk of inappropriate modelling), as well as complexity for users of the financial statements. Furthermore, given the ECL requirements being complex in nature, disclosures are important for users of financial statements to perform comparisons between entities, benchmark different entities credit risk management performance, and identify outliers which enhances their usefulness for users' decision making. Stander (2021) agrees with the critical importance of credit risk disclosures to assist users, as well as regulators to gain an understanding into the entity specific complexities within each entity surrounding their impairment approaches. This will assist users in comparing different entities credit risk profiles and identifying outliers. Thus, this increases the usefulness of information provided to users on which to base their decisions (Stander, 2021).

Untimely recognition of credit impairments from the IAS 39 incurred loss model and the subsequent impacts of the implementation of the ECL model is a significant research area that scholars have focused on given the impacts of the GCC. Research studies have shown that the move from the incurred loss model to the ECL model has a significant impact on the recognition of credit linked provisions (Sultanoğlu, 2018). This is specifically due to the incurred loss model catering for provisions based on incurred events, whereas the ECL model allows for provisions to be raised on both the incurred events and expected future defaults (Gebhardt & Novotny-Farkas, 2011). The outcome of these studies has shown that the ECL model addresses a significant delay in credit loss provisioning experienced under the incurred loss model and ensures there is more appropriate recognition of impairments in the financial statements. This increased timeliness of credit loss recognition is enhanced through the requirement of IFRS 9 to adjust the estimation at the end of every reporting period.

With the improvements that the ECL model brings through more timely impairment recognitions, an area of research that scholars focus on, is if the new ECL model completely distinguishes the volatile sharp increases level of provisioning experienced. Studies show that the ECL model leads to a front loading of impairment recognition due to the staging approach implemented by IFRS 9, which allows for gradual recognition rather than a sharp movement in impairment levels (Kund & Rugilo, 2021; Sánchez, 2018). However, it must be noted that even though the ECL model allows for lifetime provisioning to take place, which translates to smoother impairment levels over time, volatility will still exist. This will specifically occur when there are movements between the IFRS 9 stages due to changes in credit risk levels. These, however, are noted to be lower than experienced under the incurred loss model (Kim, Ng, Wang & Wu, 2021; Sánchez, 2018).

The adoption of the ECL model does not come without criticism from scholarly research. The new ECL model overall increases the complexity of accounting through the need for highly sophisticated methodologies and advanced skill sets in order to estimate expected losses (Witzany & Pastiranová, 2021). Additionally, the need for more specialists to determine the credit provisions is required especially around determination of quantitative ECL drivers, out of model adjustments, management overlays, and the linkage of historical regression models with forward-looking macroeconomic variable scenarios (Stander, 2021). Given these complexities, the need for enhanced and detailed disclosures is fundamental for users to fully analyse and make decisions surrounding the entities performance (European Systemic Risk Board, 2017). Many banks do not have the full capabilities or specialist staff to sufficiently cater for complexities of estimating ECL, especially with regards to the different macroeconomic scenarios and weightings of inputs within those models. In order to produce the full provision estimation as envisaged within IFRS 9, banks would need to ensure there are sufficient actuarial specialists, econometricians, powerful computer systems to run the statistical models, and sufficient inter-departmental efficiencies to ensure that the predictions of losses are appropriately accurate for users of the financial statements (Kim, Ng, Wang & Wu, 2021).

Through research of academic literature, limited information was identified, specifically surrounding credit disclosures from an IFRS 9 post ECL model implementation perspective in the South African banking industry. This limited presence, specifically around the usefulness of credit risk disclosures, further informs the purpose of this research study.

2.5 Chapter conclusion

The literature review chapter explored the current literature surrounding credit risk from three specific focus areas including credit risk disclosure requirements contained within IFRS 7, external thematic reviews on current credit risk disclosure practices, and academic literature focusing on credit risk. The literature provided a basis and provided an understanding regarding the placement of the research study from a scoping basis.

The GCC highlighted the need for superior financial reporting standards regarding financial instruments, especially surrounding credit risk. This need for more useful credit information is catered for by the IASB through the creation of the ECL model, which addresses many of the inadequacies of the incurred loss model, which governed impairment recognition. Particularly, the newly introduced ECL model enhances the overall timeliness of credit impairment recognition and reduces the overall complexity of the incurred loss model stemming from its multiple approaches available to cater for credit losses. Due to these inefficiencies being addressed, overall market confidence and useful information is produced.

With the improvement of credit risk recognition brought about from the ECL model, the IASB needed to ensure that the disclosure standards within IFRS 7 incorporated this change in accounting methodology. Enhancements to IFRS 7 disclosure requirements were thus made to ensure that users need for financial information that allows them to understand entities credit risk management practices, ECL losses recognition methodologies and credit risk profiles are incorporated.

The credit risk disclosures within IFRS 7 have undergone many thematic content reviews. These studies highlight that currently there are still areas of deficiency with regards to the existence and quality of credit risk disclosure practices, which lead to information that is less useful to users. Often credit risk disclosures provided by entities has seen to be boilerplate in nature without the necessary detail and entity specifics to allow users to gain a full understanding of an entities credit risk processes for decision making purposes.

Academics have noted the importance of credit risk disclosures due to the impact that credit impairments have on the overall financial statements. The implementation of the ECL model is noted by scholars to increase the overall credit losses held within an entity due to higher initial recognition of impairments on recognition of financial assets. Along with the day one impact in the statement of profit or loss, the ECL model is noted to increase overall timeliness of impairment recognition due to this front loading of recognised ECL loss allowances. Further to this, credit impairments have implications on other financial statement captions, such as interest income determination, especially in banking institutions, highlighting its importance to users.

From a disclosure perspective, scholars have identified the need for appropriate, precise, and useful credit risk disclosures for users' decision-making processes. Given the subjectivity, inherent complexities, and estimation uncertainty, users require disclosures that provide sufficient detail to allow them to understand an entities credit processes. Useful credit risk information further assists users to perform comparative analysis between entities, performance benchmark assessments, and assess outliers to be utilised in their assessments of entities.

However, the ECL model is not without its fair share of criticisms, specifically around the model's complex accounting requirements that require specialised skills to determine appropriate ECL coverages. The incorporation of forward-looking elements through the incorporation of macroeconomic variables lead to specialists in different fields being required to ensure the appropriate calculation of ECL impairments. Given this significant increase in complexity and the need for specialists, scholars emphasise the need for sufficient detailed entity specific disclosures to assist users in their assessments.

CHAPTER 3 – RESEARCH METHODOLOGY AND APPROACH

3.1 Introduction

This chapter details the manner in which the research was performed. It details the research methodologies chosen for the performance of the study, including the underlying rationale behind the selections. It further discusses the population and the specific selection criteria utilised to obtain the sample that the research methodologies are applied to for the purpose of the study. In addition, the chapter assesses the sources of data, method of collection, research approach, and structure of the study.

3.2 Research paradigm and methodology

Establishing the research paradigm within which the study is performed is an important aspect to ensure that the research is appropriately structured. Essentially from a research philosophy perspective, there are three main paradigms that exist. These paradigms are known as positivism, interpretivism and critical realism which are further investigated below (McKerchar, 2008; Coetsee, 2010).

The positivistic paradigm predominately makes use of empirical methodologies in order to identify explanations for what is seen in reality and to use this knowledge to make predictions (Henning, Van Rensburg & Smit, 2004). This approach allows for theory to be created through hypothesis creation and the investigation of the underlying empirical data (Coetsee, 2010). This framework differs from the paradigms obtained from the interpretive framework.

The interpretivist framework differs from the positivistic framework due to its underlying research approach. Interpretivism seeks to investigate research problems in a manner that allows understanding and insight based on the researcher's interpretation (Coetsee, 2010). The paradigm does not focus solely on testing hypotheses through empirical data investigation and is more widely adopted when making use of qualitative methodologies (McKerchar, 2008). This is supported by Wahyuni (2012) who states that the interpretivist research paradigm mainly seeks to obtain a deeper understanding of qualitative data to provide highly detailed research through narrative form.

The critical research paradigm could be seen as a form of interpretivism but with a few key differences. One of the main differences between the two paradigms is that the research problem under a critical framework is more driven towards a particular answer than an unbiased view as with the interpretivist framework (Mckerchar, 2008; Baker & Bettner, 1997). Critical research investigations are seen to usually involve a mix of research methodologies to ensure that evidence is drawn from both spectrums (Mckerchar, 2008). Particularly, the critical framework seeks to investigate a research problem's 'how' and 'why' in order to draw its conclusions (Mckerchar, 2008).

Based on the above assessment of the different research paradigms that could be used to structure the research, the critical research paradigm is selected as the most appropriate. This is due to the research aim which is to assess credit risk information disclosed in financial statements of the South African banking industry, to determine if they are considered useful to users of the financial statements. This would require a research paradigm that seeks specific answers rather than a neutral stance as well as a paradigm that focuses on the 'how' and 'why' of a research problem as discussed above, in order to draw conclusions from the study's investigation. Lastly, given the nature of the study, a mixed methodology would be considered most appropriate for assessment in order to conclude on the research results. This mixed methodology approach is well established within the critical framework paradigm and further discussed below.

When designing approaches on which to perform a study of this nature, it is important to understand the varying options available for use, such as qualitative, quantitative, as well as a mixture of the two methodologies (Williams, 2007). Quantitative research is the methodology of performing an analysis or measurement of data in a numerical or statistical manner (Leedy & Ormrod, 2016). Creswell (2003) further adds that quantitative research from a collection of statistical data is utilised to produce reports that has predictive and confirmatory value. Whereas qualitative research is more concerned with the underlying qualities or characteristics that are not always able to be reported in a numeric manner (Leedy & Ormrod, 2016). Williams (2007) further adds that qualitative data incorporates the purposeful investigation of the data to allow for the researcher to provide explanations of observed and interpreted elements. Given the nature of the study, the research methodologies utilised are a mixture of quantitative and qualitative methodologies to allow for the beneficial elements of both to enhance the usefulness of the research study.

The research methodology applied in the execution of this study is that of an empirical content analysis. This approach is used to perform an assessment on the South African JSE listed commercial banking institution's annual financial statements for the 2020 financial period, as these were the latest financial statements available at the point the research study was executed. The specific focus of the assessment is with regards to each of the bank's credit risk presentation and disclosure practices, as required in IFRS 7, which is aimed at providing users of the financial statements with useful information. The content analysis of the study is further expanded into a disclosure index study and a thematic content analysis.

The disclosure index study is specifically aimed at determining the existence of IFRS 7 credit risk disclosure practices within the bank's 2020 annual financial statements (Haji, Marx & Coetsee, 2014). As noted by Marston and Shrives (1991), the use of a disclosure index study has been used numerous times in accounting research, as this provides a means to illustrate the level or extent of disclosure but does not address the qualitative aspects. This test will take the form of a three staged answer scale comprising of 'not applicable', 'not disclosed' and 'disclosed'. Table 2 below, details the disclosure index rating system with further descriptions regarding its application in the study:

TABLE 2: Disclosure Index Study Rating Scale

Disclosure index	**Not applicable**	**Not disclosed**	**Disclosed**
Rating scale			
Disclosure index study rating scale as it relates to the credit risk disclosure requirements within IFRS 7	A bank is allocated a rating of 'not applicable' if the 2020 annual financial statements do not provide the specific IFRS 7 credit risk disclosure requirements due to it not being applicable to their operations. This could be due to either the nature of their underlying	A bank is allocated a rating of 'not disclosed' if the 2020 annual financial statements do not provide the required IFRS 7 credit risk disclosures, where it is expected that it should be disclosed.	A bank is allocated a rating of 'disclosed' if the 2020 annual financial statements provide the required IFRS 7 credit risk disclosures.

	operations or the specific accounting policies implemented by the bank.		

(Source: Own analysis)

The thematic content analysis is used to assess the quality of the bank's 2020 annual financial statements (Haji, Marx & Coetsee, 2014). This qualitative methodology allows for patterns within data to be identified, interrogated, and reported on (Braun & Clarke, 2006). In the research study, this test takes the form of a staged answer scale comprising of 'not applicable', 'inadequate', 'standard', and 'exemplary'. Table 3 below, details the thematic content analysis rating system with further descriptions regarding its application in the study:

TABLE 3: Thematic Content Analysis Rating Scale

Thematic Analysis	Not applicable	Inadequate	Standard	Exemplary
Rating scale				
Thematic content analysis study rating scale as it relates to the credit risk disclosure requirements within IFRS 7	A 'not applicable' rating is allocated to a bank's financial statement disclosure. This occurs where the bank's underlying operations or accounting policies determine the disclosure to be not applicable or	An 'inadequate' rating is allocated to a bank's financial statement disclosure when the required minimum credit risk disclosures have been disclosed. However, there is no additional voluntary disclosures provided.	A 'standard' rating is allocated to a bank's financial statement disclosure when the required minimum credit risk disclosures have been disclosed. However, there is a degree of additional voluntary disclosure or	An 'exemplary' rating is allocated to a bank's financial statement disclosure when the required minimum credit risk disclosures have been disclosed. However, there is a high level of detailed additional voluntary

	where the bank has presented incorrect disclosures that do not allow for the quality to be further assessed as part of the study.	Further to this, the disclosures provided are not entity specific and are considered boilerplate in nature. The above leading to financial information that is of low usefulness to the users of the financial statements.	detail provided over and above the required minimum requirements within IFRS. Further to this, the disclosures provided are entity specific with areas of improvement to be noted. The above leads to financial information that is of moderate usefulness to the users of the financial statements.	disclosures provided over and above what is required for IFRS compliance. Further to this, the disclosures provided are entity specific with no significant areas of improvement noted. The above leads to financial information that is of high usefulness to the users of the financial statements.

(Source: Own analysis)

For the purposes of assessing the credit risk disclosure practices in Chapter 4, each disclosure has been given the same weighting in the overall assessment in terms of its importance in contributing to useful information. This approach allows for each result from the disclosure index study and thematic content analysis to be weighted accordingly and assessed in totality without any weighting bias.

As noted in Chapter 1 of the research study, the limitations of a content analysis must be taken into account when investigating the findings produced. The most important limitation being that the outcomes, patterns and interpretation of data are based on the specific researcher's judgement. Weber (1990) further states that the rating systems implemented by a researcher is often biased when the researcher has worked closely with the study. Thus, the results can be expected to be more highly correlated when the content analysis is performed by that person than when compared to the outcome that an unfamiliar researcher would obtain. Given this, it is important to note that the interpretations of outcomes from the methodology application by the researcher may not be comparable to that of other researchers.

As the research study is from a South African listed commercial banking institution perspective, the study has inherent limitations in terms of its findings being applicable to banks globally. Further to this, the sample selection is relatively small when compared to the banking institutions found within South Africa which indicates that the results may not be indicative of the entire South African banking industry.

3.3 Population

The population for the research study includes the largest JSE listed South African banking institutions, which comprise ABSA Bank, Capitec Bank, First National Bank, Investec Bank, Nedbank, and Standard Bank. Banking institutions being selected to align with the research problem which identified a gap in current research over credit risk disclosures post the IFRS 9 ECL model implementation within the South African banking industry. The JSE was selected as the exchange listing of choice due to it being the primary stock exchange within South Africa. Further to this, there is limited research currently that specifically assesses the credit risk disclosures of banking institutions listed on this exchange, post the implementation of the ECL model.

However, for the purposes of the study only ABSA Bank, First National Bank, Nedbank, and Standard Bank are used in the sample. The selection was based on the foundation of South African listed banks with mature lending operations covering a variety of lending products (secured and unsecured) with commercial operations. These banks are listed on the JSE and are thus required as per the JSE listing requirements to conform to the IFRS when preparing their financial statements (Johannesburg Stock Exchange, 2019b). Thus, there is an expectation that the banks are in compliance with regards to the credit risk disclosure requirements provided in IFRS 7 without significant deficiencies. However, this will be explored further in Chapter 4 of this study.

Other major JSE listed banking institutions within South Africa, include Capitec Bank and Investec Bank but were not included in the research population. Capitec Bank has specifically been excluded as their lending facilities are not comparable to the selected banks mature lending operations, which includes asset-backed lending. In the case of Investec Bank, this institution was excluded purely because this bank is considered a private and not a commercial bank. Thus, the credit risk profile is not comparable to that of commercial banks. By excluding these banks from the sample selection, it ensures that there is applicable comparability within the tested sample from an underlying credit risk perspective.

3.4 Sources of data and method of collecting data

The data used in the study, taken from the 2020 annual financial statements, was sourced from each of the respective banking institutions official websites. Given that the banks are listed entities on the JSE, these statements are publicly available. Refer to Annexure B below, for further detail regarding the sources and websites applicable for the data.

3.5 Research approach and structure

The research study's approach is an empirical content analysis utilising both quantitative and qualitative methodologies. The structure of this assessment has taken place using the following systematic steps:

The first step in performing the research study was to understand what the research problem was, as this guides the overall study. This step also involved the assessment of current scholarly literature or research about the research problem to assess if there was scope for the research study to take place. Refer to Chapter 1 and Chapter 2 for further detail about this step in the research process.

The next step in the research study was to explain and clarify the specific IFRS 7 credit risk disclosures that are to be assessed. This step ensured that there is clarity and that a specific scope is laid out within which the research would be conducted. Refer to Chapter 2 for additional detail involving this step.

Once the scope was explained, the next step within the process was to determine the population from which the sample would be drawn for application of the research methodology. Specifically for this research study, it involved determining which of the South African JSE listed commercial banking institutions form part of the study's sample. Furthermore, rationale for the selection of the specific banks and stock exchange was explained to provide the context for the research. This was explained within this Chapter.

Once the sample was determined, it was important to explain specifically the methodology that would be used to assess the credit risk disclosure practices of the banks. The research study determined a disclosure index study and thematic content analysis appropriate in assessing the existence and quality respectively of credit risk disclosure provided by the banks to users. A rating scale was developed on which the IFRS 7 credit risk disclosure are based and rated for further detailed assessment. This was detailed within this Chapter.

The performance of the study was the next step in the research process where the research methodology chosen was applied to the credit risk disclosures of the sampled banks. Each of the results were collated and analysed in detail to perform an assessment on which the conclusion of the research study was based. The findings of the empirical study are included in Chapter 4.

A conclusion of the overall findings was prepared to assess whether the research objective and problem have been addressed. This included the assessment of possible future studies that can be performed on the basis of the results obtained. Refer to Chapter 5 for the detail.

3.6 Chapter conclusion

The objective of this chapter was to explain and provide the rationale regarding the selected research methodologies and approach used to conduct the study. The research methodology considered most applicable to the nature of the study is that of a disclosure index study and a thematic content analysis. This is because the methodologies are capable of providing appropriate evidence of the existence and quality of credit risk disclosure practices of the banks sampled. From these methodologies, rating scales were determined to assess and rate each of the banks 2020 annual financial statement credit risk disclosures for further assessment.

The population is the banking institutions within a South African context with a specific focus on JSE listed commercial banking institutions. The sample consists of ABSA Bank, First National Bank, Nedbank, and Standard Bank. These banks were considered the most comparable given their commercial nature and similar lending profiles. The source of the credit risk disclosures for these banks were obtained from their official investor websites, which are publicly available.

Lastly, the chapter provided a high-level overview of the structure that the research study has taken. The structure above notes the systematic steps of each of the chapters of the dissertation, while providing information of the most important attributes of each.

CHAPTER 4 – RESEARCH RESULTS

4.1 Introduction

This chapter reports on the findings of this study after applying the rating scales in the manner discussed in the research methodology to the sample population. The analysis of the credit risk disclosures practices implemented by the South African banks was performed, firstly, by assessing the existence of the disclosures through a disclosure index study (refer to Table 2 within Chapter 3) and secondly, through a quality assessment by implementing a thematic content analysis (refer to Table 3 within Chapter 3). The research methodology and respective rating scales have been explained in detail within Chapter 3.

The analysis of the credit risk disclosure practices in each of the bank's annual financial statements was performed within the following categories in order to assess the appropriateness, precision level, and decision-making usefulness of the credit disclosures from a post ECL implementation perspective:

i. Credit Risk Management and ECL inputs;
ii. Entity specific disclosures focused on expected credit losses; and
iii. Entity specific disclosures focused on credit risk exposures.

The above categories are selected to align with the IASB's assessment of information enabling the objective of the IFRS 7 to be met, which is to "enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks" (International Financial Reporting Standards Foundation, 2016c: para.1). The IASB has identified that these categories allow for useful and relevant information to be provided to users in line with the IFRS 7 objective. Specifically, it allows the users of financial statements to make predictions regarding the timing, amount, and uncertainty of an entities cash flows. These categories include qualitative and quantitative credit risk disclosures to provide useful information to users (International Financial Reporting Standards Foundation, 2021e).

4.2 Credit risk management and ECL inputs

The assessment of credit risk disclosure practices within this predefined category includes the disclosures contained within the IFRS 7 paragraph 35F(a) to paragraph 35G(c), which focus on the credit risk management practices and ECL inputs utilised by the banks. These disclosures aim at allowing users to understand how the different credit risk definitions, assumptions, inputs, and methodologies inform the recognition and measurement of the overall ECL loss allowance. The outcomes of the study have been achieved with the results from the disclosure index study being summarised in Table 4 and the results from the thematic content analysis in Table 5. Following these tables, there is an in-depth assessment of the results obtained from applying the research methodologies, which support the findings in the tables.

TABLE 4: Disclosure index study results summary for credit risk management and ECL inputs

Disclosure index study summary of results					
Disclosure index study rating scale	**Sampled banks**	**Not applicable**	**Not disclosed**	**Disclosed**	**IFRS compliance %**
Paragraph 35F(a)					
How an entity determines if a SICR event has taken place since initial recognition.					
Par35F(a)	4			4	100%
Paragraph 35F(a)(i)					
How an entity determines a financial instrument to have low credit risk.					
Par35F(a)(i)	4			4	100%
Paragraph 35F(a)(ii)					
Rebuttal of the 30-day past due presumption representing a SICR event within the entity.					
Par35F(a)(ii)	4	4			100%
Paragraph 35F(b)					
The definition of default within an entity and its rationale.					
Par35F(b)	4			4	100%
Paragraph 35F(c)					
How an entity has grouped its financial assets if the ECL recognised was determined based on a collective basis methodology.					

Par35F(c)	4			4	100%
Paragraph 35F(d)					
How an entity determines whether a financial asset is credit impaired.					
Par35F(d)	4			4	100%
Paragraph 35F(e)					
The write-off policy incorporated in its processes, including the factors utilised to indicate that there is no expected recovery for the financial asset and the policy for amounts that have been written-off which are still subject to further enforcement activities by the entity.					
Par35F(e)	4			4	100%
Paragraph 35F(f)					
How the requirements of IFRS 9 regarding cash flow modifications have been applied, including the shifts in IFRS 9 stages between 12-month ECL and lifetime ECL for these modified financial assets.					
Par35F(f)	4			4	100%
Paragraph 35G(a)(i)					
Inputs, methodologies, techniques, and assumptions used by the entity to determine an appropriate 12-month ECL.					
Par35G(a)(i)	4			4	100%
Paragraph 35G(a)(ii)					
Inputs, methodologies, techniques, and assumptions utilised by the entity to determine whether a SICR event has taken place since the financial asset's initial recognition.					
Par35G(a)(ii)	4			4	100%
Paragraph 35G(a)(iii)					
Inputs, methodologies, techniques, and assumptions utilised by the entity to determine whether a financial asset is determined to be credit impaired.					
Par35G(a)(iii)	4			4	100%
Paragraph 35G(b)					
Disclosure in terms of how an entity incorporates forward-looking information to determine an appropriate ECL, including the incorporation of macroeconomic variables.					
Par35G(b)	4			4	100%
Paragraph 35G(c)					
Disclosure regarding changes in the different significant assumptions, methodologies and techniques used to determine an appropriate reporting date ECL loss allowance.					

Par35G(c)	4			4	100%
Total	**52**	**4**	**0**	**48**	**52**
Percentage	**100%**	**8%**	**0%**	**92%**	**100%**

(Source: Own analysis)

TABLE 5: Thematic content analysis results summary for credit risk management and ECL inputs

Thematic content analysis summary of results					
Thematic content analysis rating scale	**Sampled banks**	**Not applicable**	**Inadequate**	**Standard**	**Exemplary**
Paragraph 35F(a)					
How an entity determines if a SICR event has taken place since initial recognition.					
Par35F(a)	4				4
Paragraph 35F(a)(i)					
How an entity determines a financial instrument to have low credit risk.					
Par35F(a)(i)	4	3			1
Paragraph 35F(a)(ii)					
Rebuttal of the 30-day past due presumption representing a SICR event within the entity.					
Par35F(a)(ii)	4	4			
Paragraph 35F(b)					
The definition of default within an entity and its rationale.					
Par35F(b)	4				4
Paragraph 35F(c)					
How an entity has grouped its financial assets if the ECL recognised was determined based on a collective basis methodology.					
Par35F(c)	4				4
Paragraph 35F(d)					
How an entity determines whether a financial asset is credit impaired.					
Par35F(d)	4				4
Paragraph 35F(e)					

The write-off policy incorporated in its processes, including the factors used to indicate that there is no expected recovery for the financial asset and the policy for amounts that have been written-off which are still subject to further enforcement activities by the entity.					
Par35F(e)	4			1	3
Paragraph 35F(f)					
How the requirements of IFRS 9 regarding cash flow modifications have been applied, including the shifts in IFRS 9 stages between 12-month ECL and lifetime ECL for these modified financial assets.					
Par35F(f)	4				4
Paragraph 35G(a)(i)					
Inputs, methodologies, techniques, and assumptions utilised by the entity to determine an appropriate 12-month ECL.					
Par35G(a)(i)	4				4
Paragraph 35G(a)(ii)					
Inputs, methodologies, techniques, and assumptions utilised by the entity to determine whether a SICR event has taken place since the financial asset's initial recognition.					
Par35G(a)(ii)	4				4
Paragraph 35G(a)(iii)					
Inputs, methodologies, techniques, and assumptions used by the entity to determine whether a financial asset is determined to be credit impaired.					
Par35G(a)(iii)	4				4
Paragraph 35G(b)					
Disclosure in terms of how an entity incorporates forward-looking information to determine an appropriate ECL, including the incorporation of macroeconomic variables.					
Par35G(b)	4				4
Paragraph 35G(c)					
Disclosure regarding changes in the different significant assumptions, methodologies and techniques used to determine an appropriate reporting date ECL loss allowance.					
Par35G(c)	4				4
Total	**52**	**7**	**0**	**1**	**44**
Percentage	**100%**	**13%**	**0%**	**2%**	**85%**

(Source: Own analysis)

The concept of a SICR is a key change that was implemented by the IASB when introducing the ECL model. A SICR event within a loan informs the shift from an IFRS 9 Stage 1 categorised loan to Stage 2, which shifts the ECL recognition from that of a 12-month ECL to lifetime ECL. This significantly increases the level of coverage held due to the impacts the stage shift has on the underlying model drivers to cater for additional credit risk experienced. How a bank identifies accounts that have experienced a SICR is of key importance for users of the financial statements, as it allows for understanding of the bank's credit management approaches and the overall risk profile of the bank. Overall, all banks (100%) within the population provided policy disclosures surrounding the identification of SICR events in line with the requirements of IFRS. Each of the banks (100%) SICR disclosures were split into categories covering the retail and commercial lending segments to ensure the difference in natures of the lending books is captured within the disclosures. Overall, the banks provide detailed voluntary disclosures regarding the bank specific methodologies implemented surrounding the identification, measurement, and assessment of SICR scenarios. Additionally, each of the banks (100%) incorporate further information, covering the impact of Covid-19 on the identification, measurement, and reporting of SICR implications in the loan books. Given the quality of these disclosures, each of the banks (100%) obtained an 'exemplary' rating for the quality of disclosures highlighting the degree of usefulness to users of the financial statements.

IFRS requires disclosures on how entities consider if loans are those of low credit risk in nature for the purpose of applying the appropriate IFRS 9 staging to each loan. A finding noted was that only one of the four banks (25%) made use of the low credit risk exemption within IFRS, which was disclosed in the financial statements. However, each of the banks (75%) not making use of the exemption, noted this in their disclosures to inform users, which led to full IFRS compliance from an existence perspective. From a quality disclosure assessment perspective, this however led to a majority of the banks scoring 'not applicable' in the thematic content analysis. The one bank (25%) that did incorporate the exemption provided high-quality detailed disclosures regarding how these are determined. The bank provided a large amount of voluntary entity specific detail, regarding how the scoring systems are created and what the scores thresholds are, so as to determine if a loan can be considered to be of low credit risk. These disclosures went even further by splitting the above detail between the retail and the corporate lending books ensuring that users were able to fully understand how the bank incorporated the rules within both lending segments.

An essential element within the determination of SICR is the rebuttable presumption introduced by IFRS 9. This presumption introduces a basic indicator that SICR can be presumed to have occurred when a loan is 30 days past due but is allowed to be rebutted if an entity has supportable information to indicate that this is not appropriate. All banks (100%) within the sample made use of the 30 days past due presumption for SICR over and above the other factors used, as noted above. Given that the disclosure is required only if an entity has chosen to specifically rebut the presumption, the rating provided for the existence and quality assessments would be 'not applicable'. However, each bank (100%) provided disclosures that indicate to users that they make use of the 30-day rebuttable presumption to evidence SICR. As the banks (100%) selected this specific accounting policy, they still comply with the disclosure requirements of IFRS.

The definition of default is a critical element that banks use to determine the level of ECL that is applied to each loan advanced to customers, as default automatically places loans within the IFRS 9 Stage 3 category. Depending on the ECL methodologies applied by an institution, the definition adjusts the appropriate drivers of model ECL, which determine the overall provision, which is the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) where specific judgemental intuitive provisions are not raised. This highlights the need for users to fully understand this input assumption into the ECL models given its use in determining the ultimate ECL raised on loans and advances. All banks within the population were similar in their disclosure practices around the definition of default presented to users. Each of the banks (100%) provided a definition of default, including the rationale for their selection, which was similar in aim of being compliant with both IFRS and the regulatory Basel definition of default, which is consistent with the principle of 90-days past due being considered default (Basel Committee on Banking Supervision, n.d.). However, each disclosure went further by providing additional voluntary information regarding the other objective and qualitative information used to identify loans to customers in default other than the 90-day rebuttable presumption provided by IFRS. These additional disclosures were entity specific to the lending operations of the bank and not boilerplate in nature given that they all had applicability within the banking industry operations. It is noted that all the banks (100%) decided to keep the rebuttable presumption provided by the IFRS as one of the determining factors of default.

For the determination of the calculation of ECL, IFRS 9 allows for the impairment of loans at an individual loan basis or collectively. The banks (100%) within the sample population have disclosures surrounding the basis on which the ECLs have been determined. It is noted that the banks (100%) take a similar approach when grouping financial assets for ECL calculations. The methodology employed by banks is through segmentation of homogenous financial assets with similar risk profiles to determine appropriate model drivers to allocate to each of the underlying financial assets within that segment. Depending on the risk profiles, these segments could either be at a counterparty level or include a vintage (specific groupings) of financial assets. The banks (100%) have all provided detailed entity specific disclosures surrounding how they group financial assets in a manner that informs users of the financial statements on the utilised basis on which they determine ECL.

In line with the disclosure requirements of IFRS 7 paragraph 35F(b), the definition of default and the factors listed for consideration in those disclosures were also utilised by all the banks (100%) to determine if a loan is considered credit impaired. In line with the findings of the default policy disclosures, all the banks provided relevant and useful information, which informs their decisions in determining what are considered credit impaired loans. The disclosures are considered entity-specific and provide sufficient voluntary disclosure to enable users of the financial statements to adequately understand the banks' policies.

With regards to the existence of the write-off policies, all the banks' (100%) financial statements contained the policy. Most of the banks (75%) provided the write-off policy splits between product portfolios or with a retail versus commercial loan split, which provides additional detail to users with regards to these differences. It would be expected for large commercial banks to provide at least portfolio level or nature level (retail versus commercial) splits as the overall nature of these segments could lead to significant differentiation in the determination of write-off points. This led to one of the banks (25%) being rated as 'standard' in the quality assessment as this level of detail is considered important for users of the financial statements given the impact on underlying portfolio loss given write-off levels affecting the overall ECL coverage. All the banks provided detailed entity specific voluntary disclosure around the methodologies or inputs to determine the point of write-off, which included post write-off recovery analysis, reputational risk, prescription of debt, level of tangible collateral held, and cost versus recovery analysis. Specific voluntary detail regarding time ranges of write-offs were provided by all banks (100%) so as to provide users with an understanding of the average period in default before loans are written-off. In terms of written-off loans still subject to enforceable activities, the banks (100%) included the criteria used to determine a write-off, which would include loans with enforceable activities. None of the banks disallowed the write-off of loans with enforceable activities within their policies.

The IFRS requires that entities include an assessment of modified financial assets when assessing whether a SICR event has occurred for the purposes of determining an appropriate ECL. A modification takes place when the contractual terms and conditions of a financial asset have been altered in a manner that has not led to the assets derecognition. Within a banking context, these usually take the form of either debt review or restructurings. Each of the banks (100%) provided users disclosures regarding the modification of financial assets. All the banks (100%) provided disclosures that allow users the understanding of how modifications are incorporated in management's assessment of SICR specific to each banks' operations. This incorporation in SICR is taken further by each bank (100%) in terms of providing further detail regarding the specific stages that these exposures are held when a modification takes place leading to a SICR. Each of the banks (100%) provided specific minimum timelines to which modifications are held within their SICR stages before being assessed for possible curing. Ultimately, leading to reductions in the ECL drivers applied (lifetime or 12-month ECL). The banks (100%) have added voluntary specific disclosures on their adherence to the SARB directives, which govern the application of distressed restructuring and Covid-19 restructures. From a directive perspective, each of the banks (100%) incorporated the regulations into their credit risk management practices in a manner that makes it entity specific and non-boilerplate in nature. Overall, given the quality of the disclosures provided to users, each of the banks (100%) obtained an 'exemplary' rating.

Given the highly complex and judgemental requirements of IFRS 9 to determine an appropriate ECL, users require detailed disclosures to understand the entity specific methodologies, techniques, assumptions, and inputs used. The banks (100%) provided disclosures regarding the measurement of ECL from a 12-month and lifetime perspective. Each bank (100%) ensured that they have noted their inclusion of the standard requirements of ECL measurement being that the ECL is an unbiased probability weighted value, incorporating the time value of money, which is based on reasonable evidence that is without undue effort or cost. However, each of the banks (100%) provide additional disclosures over and above the minimum requirements of IFRS 7 to ensure that users were given useful information that was detailed and entity specific, which included a high degree of voluntary disclosures. Within these disclosures, the distinction between the measurement of 12-month and lifetime ECL has been noted by each of the banks (100%). As expected of the banking industry, the banks (100%) provided the disclosures split between the retail banking and corporate investment banking books to ensure that the different natures of the lending books are appropriately understood by users. Each of the banks (100%) provided detailed and entity specific disclosure to ensure users are able to understand how elements, such as SICR, forward-looking macroeconomic variables, write-off points, and modifications were incorporated into their models to determine an appropriate ECL coverage. The banks (100%) ensured that the impacts of Covid-19 on the calculation of ECL were sufficiently disclosed at a level that allows users to fully understand the impact.

The incorporation of forward-looking information in the determination of ECL through the inclusion of various macroeconomic variables is possibly one of the most important areas of credit risk disclosures for users. These disclosures look to incorporate weighted average expected scenarios in accordance with the requirements of IFRS 9 to ensure that ECL recognition is enhanced through earlier recognition of potential default events ensuring that banks maintain sufficient ECL coverage. Overall, the banks (100%) provided extensive disclosures surrounding the incorporation of forward-looking information in the measurement of ECL. Detailed entity specific scenarios, which mostly aligned with the normal expected bear, bull, and base case scenarios, were disclosed by each of the banks (100%). For each scenario disclosed by the banks (100%), detailed qualitative and quantitative information was provided, specifying the forward-looking expectations of the economy to allow users to understand how the macroeconomic adjustments were derived. All the banks (100%) took the forward-looking disclosures further by providing the specific weightings for each scenario, as well as the banks' specific forecasting period, which these scenarios cover. Each of the banks (100%) provided disclosure around their key macroeconomic variables for each scenario and forecasting period. This allows users to understand the banks' specific underlying variables and their reasonability in deriving the forward-looking adjustments to the historical regression curve ECL outputs.

IFRS 9 requires that entities provide detailed disclosure around any changes to the estimation techniques or assumptions, which are significant in the determination of ECL, including the reason for the changes occurring. Given the significance of credit risk within banks, this is particularly important to users as it highlights the changes made by the bank, allowing them to assess prior assumptions made using the information. Furthermore, it allows them to base and adjust their forward-looking considerations given these changes. Given the nature of credit risk, there is continuous change in the form of refreshing ECL drivers and assumption updates of macroeconomic variables employed. Each of the banks (100%) detailed the updates made to the assumptions used to derive the overall ECL. The changes for all the banks (100%) focused on the updating of assumptions used in the forward-looking macroeconomic element of ECL. These updated assumptions for each bank (100%) were disclosed in a manner that provided detailed entity specific information to users that allow them to obtain an appropriate understanding of the changes from the prior year. In addition, each bank provided detailed information regarding the assumption changes and overall outlook on the economy evidencing a high degree of voluntary disclosures over and above what is required by IFRS 9. Given this, the overall rating of the disclosures was noted to be 'exemplary' in terms of their quality.

4.3 Conclusion - Credit risk management and ECL inputs

The performance of the disclosure index methodology evaluates the existence of credit risk management disclosures by the banks. The summarised results can be found in Table 4 illustrating that the banks (100%) all provided the required disclosures within this set category. The areas where banks obtained a 'not applicable' rating was due to accounting policy choices rather than disclosure deficiencies. Thus, a result of 100% compliance was achieved as per the requirements of IFRS and it is noted that all relevant disclosures that allow users access to useful information were provided.

In terms of the quality of the credit risk disclosure practices, assessed through the thematic content analysis, mixed results were obtained. Table 5 summarises the results of the assessment, highlighting that 13% of the banks achieved a 'not applicable', 2% 'standard' and 85% an 'exemplary' rating. The banks that achieved a 'not applicable' rating, were attributable to the accounting policies implemented by the relevant bank. Specifically, with regards to the determination of low credit risk financial assets where only one bank (25%) made use of this exemption and all banks (100%) not rebutting the 30-day SICR presumption but rather incorporated this into their credit risk processes. Given these accounting policies chosen by the different banks, they could not be assessed from a quality perspective. It is noted that one bank (25%) achieved a 'standard' rating relating to the disclosure of write-off policies. The reason for this rating was due to the disclosures not being disclosed at the level of detail expected from a bank due to no specification being made when it came to the different portfolios or between the retail versus commercial books within the bank which inherently have different natures due to the composition of their loan books. Overall, the disclosures were rated 'exemplary' due to the banks providing disclosures that had a high-quality standard and that were not boilerplate in nature to users of the financial statements on which they base their decision-making. The banks provided additional detail over and above the minimum requirements of the IFRS in this rating bracket to allow users a deeper understanding of the underlying operations.

4.4 Entity specific disclosures focused on expected credit losses

The assessment of entity specific disclosures regarding ECL, include those contained within IFRS 7 paragraph 35H(a) to paragraph 35L. These disclosures focus specifically on the quantitative and qualitative disclosures that arise from an entity's ECLs. The IFRS 7 requirements are aimed specifically at allowing users to understand the changes in the recognised ECL loss allowance. Furthermore, the disclosures aim to explain to users how different underlying changes in the gross exposures through events such as modifications, write-offs, or shifts in IFRS 9 ECL stages affect the overall loss allowance recognised. Emphasis is also placed on allowing users to understand the specific impact of modifications to contractual cash flows, write-offs, and credit risk mitigation implications of pledged collateral. The outcomes of the study have been obtained with the results from the disclosure index study being summarised in Table 6 and the results from the thematic content analysis in Table 7. Following the tables is an in-depth assessment of the results obtained from applying the research methodologies, which support the findings in the tables.

TABLE 6: Disclosure index study results summary for entity specific disclosures focused on ECL

Disclosure index study summary of results					
Disclosure index study rating scale	**Sampled banks**	**Not applicable**	**Not disclosed**	**Disclosed**	**IFRS Compliance %**
Paragraph 35H(a)					
Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the 12-month ECL loss allowance.					
Par35H(a)	4			4	100%
Paragraph 35H(b)					
Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the lifetime ECL loss allowance.					
Par35H(b)	4			4	100%
Paragraph 35H(c)					

Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the ECL loss allowance on purchased or originated credit impaired financial assets.					
Par35H(c)	4	3		1	25%
Paragraph 35I(a)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to the recognition of new financial assets.					
Par35I(a)	4			4	100%
Paragraph 35I(b)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to modifications not resulting in derecognition.					
Par35I(b)	4			4	100%
Paragraph 35I(c)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to derecognitions (write-offs).					
Par35I(c)	4			4	100%
Paragraph 35I(d)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to transfers between 12-month and lifetime measured ECL.					
Par35I(d)	4			4	100%
Paragraph 35J(a)					
Disclosure of the amortised cost of a financial asset before the effects of modification, including the associated modification gain or loss. This specifically relating to financial assets subjected to lifetime ECL.					
Par35J(a)	4			4	100%
Paragraph 35J(b)					
Disclosure of the gross carrying value at the end of the financial period of modified financial assets that were subjected to lifetime ECL but has now reverted back to a 12-month ECL basis.					

Par35J(b)	4	3		1	25%
Paragraph 35K(a)					
Disclosure that reflects the maximum exposure of credit risk an entity is exposed to at the end of the financial reporting period without the risk mitigating effects of collateral or other credit enhancing assets taken into account.					
Par35K(a)	4			4	100%
Paragraph 35K(b)					
Narrative disclosures regarding an entity’s pledged collateral’s nature and its quality. Further to this, disclosure is required around significant changes in the quality of collateral or its policies. Lastly, disclosure should be made where an entity has not recognised an ECL loss allowance for a financial asset due to the mitigation of credit risk by collateral pledged to the entity.					
Par35K(b)	4			4	100%
Paragraph 35K(c)					
Quantitative disclosures regarding collateral pledged to the entity or other credit enhancements related specifically to credit-impaired financial assets.					
Par35K(c)	4			4	100%
Paragraph 35L					
Quantitative disclosures regarding financial assets that have been written-off but are still subject to enforcement activities by the entity.					
Par35L	4			4	100%
Total	**52**	**6**	**0**	**46**	**52**
Percentage	**100%**	**12%**	**0%**	**88%**	**100%**

(Source: Own analysis)

TABLE 7: Thematic content analysis results summary for entity specific disclosures focused on ECL

Thematic content analysis summary of results					
Thematic content analysis rating scale	**Sampled banks**	**Not applicable**	**Inadequate**	**Standard**	**Exemplary**
Paragraph 35H(a)					
Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the 12-month ECL loss allowance.					
Par35H(a)	4				4
Paragraph 35H(b)					
Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the lifetime ECL loss allowance.					
Par35H(b)	4				4
Paragraph 35H(c)					
Reconciliation from the opening balance of the recognised ECL loss allowance to the closing balance at year end, specifically relating to the ECL loss allowance on purchased or originated credit impaired financial assets.					
Par35H(c)	4	3			1
Paragraph 35I(a)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to the recognition of new financial assets.					
Par35I(a)	4				4
Paragraph 35I(b)					
Disclosure regarding an entity's changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to modifications not resulting in derecognition.					
Par35I(b)	4				4
Paragraph 35I(c)					

Disclosure regarding an entity’s changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to derecognitions (write-offs).					
Par35I(c)	4				4
Paragraph 35I(d)					
Disclosure regarding an entity’s changes in the gross carrying amounts of financial assets and its resulting impact on the movement in the ECL loss allowance recognised, specifically related to transfers between 12-month and lifetime measured ECL.					
Par35I(d)	4				4
Paragraph 35J(a)					
Disclosure of the amortised cost of a financial asset before the effects of modification, including the associated modification gain or loss. This specifically relating to financial assets subjected to lifetime ECL.					
Par35J(a)	4				4
Paragraph 35J(b)					
Disclosure of the gross carrying value at the end of the financial period of modified financial assets that were subjected to lifetime ECL but has now reverted back to a 12-month ECL basis.					
Par35J(b)	4	3			1
Paragraph 35K(a)					
Disclosure that reflects the maximum exposure of credit risk an entity is exposed to at the end of the financial reporting period without the risk mitigating effects of collateral or other credit enhancing assets taken into account.					
Par35K(a)	4				4
Paragraph 35K(b)					
Narrative disclosures regarding an entity’s pledged collateral’s nature and its quality. Further to this, disclosure is required around significant changes in the quality of collateral or its policies. Lastly, disclosure should be made where an entity has not recognised an ECL loss allowance for a financial asset due to the mitigation of credit risk by collateral pledged to the entity.					
Par35K(b)	4				4
Paragraph 35K(c)					

Quantitative disclosures regarding collateral pledged to the entity or other credit enhancements related specifically to credit-impaired financial assets.					
Par35K(c)	4				4
Paragraph 35L					
Quantitative disclosures regarding financial assets that have been written-off but are still subject to enforcement activities by the entity.					
Par35L rating	4				4
Total	**52**	**6**	**0**	**0**	**46**
Percentage	**100%**	**12%**	**0%**	**0%**	**88%**

(Source: Own analysis)

IFRS 7 paragraph 35H requires that entities disclose a reconciliation of the opening balance to the closing balance of the ECL loss allowance recognised for any changes that occurred during the financial period by class of financial asset. Specifically, IFRS 7 paragraph 35H(a) – 35H(c) requires three ECL reconciliations to be disclosed, being a 12-month ECL measured reconciliation, a lifetime ECL measured reconciliation, as well as an originated/purchased credit impaired ECL measured reconciliation. Based on the first required reconciliation, being the 12-month ECL measured variant, the banks (100%) financial statements each contained the required ECL loss allowance reconciliations with the appropriate comparative figures. The second reconciliation covering loss allowances for lifetime ECL, measured financial assets were also provided by all the banks (100%) within the sample. Lastly, in terms of the reconciliation focused on loss allowances recognised for purchased or originated credit impaired financial assets, not all the bank's disclosures contained this reconciliation. Only one of the banks (25%) contained this reconciliation required by the IFRS due to them not recognising financial assets of this nature; thus, making the disclosure 'not applicable' for users. The quality of the reconciliations provided by the banks, other than the reconciliations that were considered 'not applicable', were of 'exemplary' quality. Each of the banks (100%) provided additional details that are not required by the IFRS. For example, each of the banks (100%) split the required reconciliations into further segmentations, such as different product portfolios or retail versus commercial splits to provide even more useful information to users.

As noted above, entities are required to provide reconciliations explaining the opening balance to closing balance movement within the ECL loss allowances recognised. However, the IASB understands that the ECL loss allowance recognised amount is influenced significantly by the changes in the gross carrying value of financial assets. Given this, IFRS 7 paragraph 35I(a) –

35I(d) requires that entities provide details regarding how changes in the gross carrying values of financial assets have influenced the changes in the recognised ECL loss allowance. Specifically, the standard requires these disclosures at a minimum to cover newly originated financial assets, modifications not resulting in derecognition, write-offs, and transfers between IFRS 9 ECL stages. This assists users with their understanding of the integrated linkages and different influences on credit risk within the banks. The banks (100%) included the minimum disclosures covering new loans originated during the year, modifications not resulting in derecognition, written-off financial assets, as well as transfers, which highlight the change in gross carrying value and underlying ECL loss allowance. It is noted that all the banks (100%) included the appropriate comparative information to users regarding these minimum disclosures, where applicable. The banks (100%), however, went further by including other disclosures of items affecting the gross carrying amounts of financial assets and their effects on the overall loss allowance recognised. For example, all banks (100%) include a degree of further items, such as splitting of interest in suspense in the disclosures, effects of foreign exchange, and time value of money unwinds to give more useful information to users. Additionally, all the banks (100%) not only included quantitative disclosures of the above, but detailed narratives which provided explanations to users in terms of each disclosed effect. All the banks (100%) as expected, given their sophisticated and mature operations, provided the disclosures in more detailed segments, such as per underlying loan portfolio or with a retail versus commercial lending split. Thus, increasing the level of entity specific detailed disclosures available for users of the financial statements for their decision-making purposes.

Terms and conditions are often renegotiated between the bank and their clients. The aim of these modifications is usually to assist clients with the repayment of debt which increases the banks recovery rates and reduces overall write-offs. However, the modifications have a direct impact on the overall credit risk level of the financial assets which need to be taken into account within the banks ECL modelling processes. Modifications are an indicator of increased credit risk to the bank, which leads to overall high coverages required and thus, it is important for users to understand the effects of these modifications on the cash flows of the bank, including the impact on overall ECL levels. IFRS 7 specifically, requires quantitative disclosures around the impacts of modifications that have not resulted in derecognition for users of the financial statements. Each of the banks (100%) provided quantitative disclosures regarding the amortised carrying amount of financial assets before the terms and conditions were modified, as well as the modification gain or loss for items with their ECL determined on a lifetime basis.

IFRS 7, paragraph 35J(b) requires specific quantitative disclosures regarding the carrying amount of financial assets that have undergone modification when the ECL was measured at a lifetime ECL that has subsequently, during the period, reverted back to ECL being determined at 12-month ECL levels. However, it must be noted that only one bank (25%) provided this quantitative disclosure in their financial statements, which included comparative figures. The other banks (75%) did not disclose this quantitative disclosure, due to their accounting policies surrounding the staging of modified financial assets. Two of the bank's (50%) accounting policy is to hold all financial assets that have undergone any modification within Stage 2 (lifetime ECL). One of the other banks (25%) has the accounting policy that states that all modified financial assets are to be held at Stage 2 (lifetime ECL) for a minimum period of 12 months, which falls outside of the financial period. Given the above results, three of the banks (75%) obtained a 'not applicable' from an existence and quality perspective, while one bank did provide the disclosures obtained an 'exemplary' rating.

An important aspect in the calculation of ECL is the effects of collateral or other credit enhancements that reduce the credit risk of a loan due to the underlying value being ceded to an entity. Banks in particular, incorporate secured lending in their day-to-day activities. The purpose of this is to mitigate the credit risk exposures to levels that align with their acceptable internal risk appetites, as well as to use it as a tool for capital adequacy purposes. Given this, it is important for users to fully understand the nature of collateral ceded to the bank and the implications of the recognised ECL. From an existence perspective, all banks (100%) provided disclosures regarding collateral and other credit enhancement assets held. Each of the banks (100%) provide users with examples of the specific collateral types accepted to reduce overall credit risk of the debt facility. The nature of the collateral accepted by the banks (100%) are similar in nature, as well as incorporate both tangible and intangible collateral. Each of the banks (100%) have provided quantitative disclosures per entity specific class of financial instrument, the maximum credit risk exposures at year-end without any credit enhancements or collateral being taken into account as required by IFRS 7. The banks (100%) provided further detail regarding the quality of the collateral held through disclosure around their underlying value that is used to mitigate credit risk exposures. In terms of disclosure to users, regarding not recognising ECL on certain exposures due to the collateral held, the banks (100%) all provided detailed disclosures regarding the value of this amount. Detailed quantitative disclosures were provided by each bank (100%) in terms of collateral held for credit-impaired financial assets held to show how these Stage 3 exposures risks, are mitigated to a certain degree. Within all disclosures, the banks (100%) provide the users with comparative information to enhance useability and understandability. Overall, the banks (100%) disclosures around securitised lending and impact of credit risk levels were highly detailed and entity specific. The banks (100%) ensured that they split out the disclosures into bank specific categories to allow the users to understand impacts within specific areas of the bank instead of being general or boilerplate in nature.

An entity is required to provide quantitative disclosures regarding amounts that have been written off but where there are still enforcement activities taking place. Each of the banks (100%) provided quantitative disclosures of amounts written-off that are still subject to enforcement activities by the bank. The disclosures provided by the banks include both the written-off amount subject to enforcement activities in the current period, as well as the comparative amounts. The disclosures by the banks (100%) provide entity specific values, as well as comparative figures for users to assist in their decision-making process and comparisons.

4.5 Conclusion - Entity specific disclosures focused on expected credit losses

The results in Table 6 from the disclosure index study on the entity specific disclosures focused on the ECL category has noted that there have been no missing credit risk disclosures as required by IFRS 7. The 'not applicable' ratings identified in the results are attributed to specifically two areas within the disclosure category. Firstly, only one of the banks (25%) incorporate originated or purchased credit-impaired assets within their operations. This led to three of the banks (75%) not being required to disclose the reconciliation of the ECL loss allowance recognised specific to this category of credit-impaired financial assets. Secondly, only one bank (25%) has the accounting policy that allows for modified financial assets to revert back to a 12-month measured ECL, as the other banks (50%) keep the financial assets in Stage 2 (lifetime ECL), while one of the other banks (25%) allows for the financial asset to revert to a 12-month measure ECL, after a 12-month monitoring period. Given this, the disclosures are 'not applicable' and were not assessed from an existence perspective. Overall, the banks (100%) disclose all the required credit risk disclosures within this category to users to obtain a 100% compliance rating.

From a quality assessment perspective through the performance of the thematic content analysis, the banks have a rating of 12% 'not applicable' and 88% 'exemplary'. As noted in detail above, given the different processes and operations of the banks, certain disclosures have been determined to not be applicable and thus, not assessed for overall quality. Overall, the banks provided 'exemplary' disclosures to the users of the financial statements, which highlight their overall usefulness on which to base their decision-making processes. As noted in the detailed qualitative assessment, the banks provide credit risk disclosures that are of a high-quality standard, which includes the aspects of being entity specific and detailed. Overall, the banks (100%) went beyond the mandatory requirements of the IFRS 7 disclosures to provide enhanced detail to users to increase the financial information's overall usefulness.

4.6 Entity specific disclosures focused on credit risk exposures

Entity specific disclosures regarding credit risk exposures are those disclosures contained within IFRS 7 paragraph 35M to paragraph 35N. These disclosures focus specifically on the credit risk exposures of an entity. Specifically, the credit risk disclosures are aimed at informing users of the financial statements about the significant credit risk concentrations and their risk grades within an entity. The outcomes of the study have been obtained with the results from the disclosure index study summarised in Table 8 and the results from the thematic content analysis in Table 9. Following the tables, is an in-depth assessment of the results obtained from applying the research methodologies which support the findings in the tables.

TABLE 8: Disclosure index study results summary for entity specific credit risk exposures

Disclosure index study summary of results					
Disclosure index study rating scale	**Sampled banks**	**Not applicable**	**Not disclosed**	**Disclosed**	**IFRS compliance %**
Paragraph 35M(a)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined on a 12-month ECL measured basis.					
Par35M(a)	4			4	100%
Paragraph 35M(b)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined on a lifetime ECL measured basis.					

Par35M(b)	4			4	100%
Paragraph 35M(c)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined for originated or purchased credit-impaired financial assets.					
Par35M(c)	4	3		1	100%
Paragraph 35N					
Where an entity has used the simplified approach for ECL recognition for trade receivables, lease receivables or contract assets, the disclosure requirements required under paragraph 35M(c) are allowed to be made on the basis of a provision matrix.					
Par35N	4	4			100%
Total	**16**	**7**	**0**	**9**	**16**
Percentage	**100%**	**44%**	**0%**	**56%**	**100%**

(Source: Own analysis)

TABLE 9: Thematic content analysis results summary for entity specific credit risk exposures

Thematic content analysis summary of results					
Thematic content analysis rating scale	**Sampled banks**	**Not applicable**	**Inadequate**	**Standard**	**Exemplary**
Paragraph 35M(a)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined on a 12-month ECL measured basis.					
Par35M(a)	4				4
Paragraph 35M(b)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined on a lifetime ECL measured basis.					
Par35M(b)	4				4

Paragraph 35M(c)					
An entity is required to provide disclosures of the gross carrying value of financial assets significant concentrations by internally generated credit risk grades. This specifically related to recognised loss allowances determined for originated or purchased credit-impaired financial assets.					
Par35M(c)	4	3			1
Paragraph 35N					
Where an entity has utilised the simplified approach for ECL recognition for trade receivables, lease receivables or contract assets, the disclosure requirements required under paragraph 35M(c) are allowed to be made on the basis of a provision matrix.					
Par35N	4	4			
Total	**16**	**7**	**0**	**0**	**9**
Percentage	**100%**	**44%**	**0%**	**0%**	**56%**

(Source: Own analysis)

IFRS 7 seeks to provide users with an understanding of the exposures to credit risk within an entity. The standard achieves this through requiring entities to disclose their exposures to credit risk by significant credit risk concentrations within their operations, as per their internal credit risk grades. This being required separately for financial assets that are 12-month ECL measured financial assets, lifetime ECL measured financial assets, and purchased or originated credit impaired financial assets. Overall, all the banks (100%) provided the required minimum disclosure, as noted above in terms of the 12-month ECL and lifetime ECL measured financial assets. However, as also noted above, only one of the banks (25%) incorporates originated or purchased credit impaired financial assets into their operations. The one bank (25%) thus, provided the required disclosures, while the disclosure for the other three banks (75%) is determined to be 'not applicable'. All the banks (100%), however, went further into their disclosures in order to provide greater detailed entity specific credit risk disclosures to users. Notably, most of the banks (75%) went further, to not only split their credit risk concentrations by internal risk ratings but also by industry segments to allow users an understanding of the underlying population of loans for more informed decision making. All the banks (100%) also provided credit risk concentrations by geographical segments to highlight the different markets' contributions to the banks overall credit risk. As expected of the banking industry, the disclosures of credit risk concentrations were also provided by the banks (100%) to the users per underlying lending portfolio to allow users enhanced insight into the underlying credit exposure composition.

IFRS allows for a simplified approach for the determination of ECL measurement on trade receivables, lease receivables, and other contract assets. This approach allows entities to measure the exposures of these financial assets at lifetime ECL, irrespective of their IFRS 9 staging. IFRS further allows for the required disclosures, as per paragraph 35M, to be based on a provision matrix, if selected by the entity. It must be noted that only one bank (25%) makes use of the simplified method when determining an appropriate ECL coverage for the above-mentioned financial assets. However, this one bank (25%) did not make use of a provision matrix to disclose the requirements of IFRS 7 paragraph 35M, but rather incorporated the disclosure as per their other credit exposures. Given this, the overall disclosure is determined to be 'not applicable' for any of the banks and reflects as such in the results.

4.7 Conclusion - Entity specific disclosures focused on credit risk exposures

The performance of the disclosure index study assessing existence of the entity specific disclosures focused on the credit risk exposure category has been assessed and the outcomes recorded in Table 8. The results indicate that from an existence of credit risk disclosures perspective, the four banks (100%) have complied with all the disclosure requirements of IFRS 7 from a compliance perspective. The 'not applicable' ratings are due to the nature and underlying processes of three banks (75%) where it is not in their business model to purchase or originate credit impaired financial assets. Further to this, 100% of the banks do not incorporate the provisions of Paragraph 35N into their credit risk disclosures. This is due to three of the banks not incorporating the simplified lifetime impairment model and the one bank that used the simplified model chose not to incorporate it as an impairment matrix. Overall, the banks maintained an IFRS compliance rate of 100% evidencing that the provision of all applicable credit risk disclosures have been provided to the users of the financial statements.

In terms of the quality of the credit risk disclosures within the entity specific disclosures focused on credit risk category, the results of the thematic content analysis have been compiled in Table 9. The results reflect that the banks have 44% 'not applicable' and 56% 'exemplary'. The overall quality of the credit risk disclosures provided by the banks to the users of the financial statements are of high quality and thus, are considered useful for decision making processes. The disclosures were entity specific and comprehensive in providing users with detailed information of the credit risk operations. As noted in the existence conclusion, the 44% rating of ‘not applicable’ is because of the banking processes not incorporating purchased or originated financial assets and did not make use of a provision matrix where the simplified approach was adopted. Given this, a quality assessment was not performed.

4.8 Chapter conclusion

The disclosure index study and thematic analysis was performed in the study with the chapter split between three predefined categories that aim to ensure that useful credit risk information is provided to users of the financial statements. Specifically, the summary of results obtained from each category on which the disclosure index study was performed can be found in Table 4, Table 6 and Table 8 with the detailed assessment contained within the chapter. The summary of results obtained for each category of disclosures that underwent the thematic content analysis can be found in Table 5, Table 7 and Table 9 with supporting detailed assessments following each of the tables.

From an overall perspective, the results of all credit risk disclosure categories for the disclosure index study have been summarised in Table 10 below. Overall, the results show that from an existence perspective, all the banks (100%) provided each required credit risk disclosure. As detailed in the respective credit risk disclosure categories, the ‘not applicable’ ratings are as a result of the nature, operations, and accounting policy choices of the banks, rather than disclosure deficiencies. Given this, from an overall perspective, all the banks (100%) have complied with the credit risk disclosure requirements of IFRS 7.

TABLE 10: Overall disclosure index study results summary

Disclosure index study summary of results					
Disclosure index study rating scale		**Not applicable**	**Not disclosed**	**Disclosed**	**IFRS compliance**
IFRS 7 par	**Bank samples**	**0**	**1**	**2**	**%**
Total	**120**	**17**	**0**	**103**	**100%**
Percentage	**100%**	**14%**	**0%**	**86%**	**100%**

(Source: Own analysis)

The overall results for the thematic content analysis have been summarised in Table 11 below which encompasses all three credit risk disclosure categories. From an overall perspective, the results illustrate that the banks obtained 17% ‘not applicable’, 1% ‘standard’ and 82%

'exemplary' ratings. As noted in the detailed content analysis in this chapter, the 'not applicable' ratings are attributable to accounting policy choices rather than disclosure deficiencies. In terms of the 'standard' rating obtained by one bank (25%), this was due to insufficient detail provided on the write-off accounting policies for users to understand how it is applied within their different underlying portfolios of the bank or between the retail and corporate lending books. This rating does not result in a disclosure deficiency but leaves room for improvement for the bank to incorporate greater detail around this disclosure to provide users with a deeper understanding of the write-off policy's application. Other than the 1% 'standard' rating, the banks scored 'exemplary' ratings, which highlights the high-quality disclosures provided by the South African banking industry to users of the financial statements. The disclosures overall were entity specific and provided further detail to users than required by the IFRS, which enhanced the overall usefulness of the disclosures. The credit risk disclosures of the banks were of the quality that position them as an acceptable benchmark or be an example to which other entities can position or compare themselves to, when preparing their disclosures for users.

TABLE 11: Overall thematic content analysis results summary

Thematic content analysis summary of results					
Thematic content analysis rating scale		**Not applicable**	**Inadequate**	**Standard**	**Exemplary**
IFRS 7 par	**Bank samples**	**0**	**1**	**2**	**3**
Total	**120**	**20**	**0**	**1**	**99**
Percentage	**100%**	**17%**	**0%**	**1%**	**82%**

(Source: Own analysis)

CHAPTER 5 – CONCLUSION

5.1 Introduction

In response to the GCC, the IASB developed the new IFRS 9 ECL model with the vision of correcting the deficiencies found within the IAS 39 incurred loss model. The creation of the ECL model brought about enhanced requirements that entities need to follow in order to determine an appropriate ECL for financial assets, such as the combination of historical ECL modelling with forward-looking macroeconomic linkages. With the improvement in sophisticated ECL modelling techniques, this brings about enhanced credit risk disclosures from IFRS 7 to allow users of the financial statements to understand and use the financial information for decision-making purposes.

With the migration from the incurred loss model to the ECL model under IFRS 9, this has led to an overall increased demand for specialist judgement due to the increased complexity of ECL determination. Given this, the research study set out to determine whether South African listed commercial banking institution's credit disclosure practices can provide users with useful information as set out by the IASB's conceptual framework. Further, the paper set out to assess whether the outcomes of the credit risk disclosure assessment highlighted that the South African banking industry can be used as a benchmark or best practice on which other institutions can base their credit risk disclosures.

The sample of South African listed commercial banking institutions was established to comprise of ABSA Bank, First National Bank, Nedbank, and Standard Bank. These banks were selected based on their mature lending operations, which include products of a secured and unsecured nature, within their commercial operations. In addition, the banks are listed on the JSE, which requires them to adhere to the JSE listing requirements which requires compliance with the IFRS, when preparing their annual financial reporting statements (Johannesburg Stock Exchange, 2019b). Specifically, other banking institutions within South Africa, such as Capitec Bank and Investec were not selected as part of the research study sample, because the nature of their operations are not comparable to that of the selected established mature commercial banks. The population and its rationale are discussed in detail in Chapter 3.

To achieve the research objective and address the research problem, the research study applied an empirical content analysis research methodology. This was used to assess the credit risk disclosure practices of the sampled four South African JSE listed commercial banking institution's annual financial statements for the 2020 financial period. This empirical content analysis was split into further underlying research methodologies. The first underlying methodology being a disclosure index study, which determines the existence of IFRS 7 credit risk disclosures, as required by IFRS 7. This test does not aim to address or measure the quality of the disclosures provided by the banks. Specifically, the disclosure index study used a three staged answer scale, which consisted of 'not applicable', 'not disclosed' and 'disclosed' ratings. Secondly, the utilisation of a thematic content analysis was also used to assess the overall quality of credit risk disclosures through a four staged answer scale consisting of 'not applicable', 'inadequate', 'standard', and 'exemplary' ratings. These research methodologies are discussed in detail in Chapter 3 of the research study.

5.2 Overview of research findings

The research study's review of credit risk disclosure practices in each of the bank's annual financial statements was performed in predetermined categories in order to assess their appropriateness, precision level, and decision-making usefulness from a post ECL implementation perspective. The credit risk disclosure requirements within IFRS 7 are specifically categorised within the following categories:

i. Credit Risk Management and ECL inputs;
ii. Entity specific disclosures focused on expected credit losses; and
iii. Entity specific disclosures focused on credit risk exposures.

The above categories split into the underlying themes of credit risk and is seen by the IASB as fundamental categories that allow for the objective of IFRS 7 to be met. This specifically being to "enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks" (International Financial Reporting Standards Foundation, 2016c: para.1).

The first category of credit risk disclosures focused on the specific credit risk management practices, ECL inputs and significant assumptions used by entities to determine appropriate ECL impairments. The results of the disclosure index study implemented in Chapter 4 highlighted that within the credit risk disclosure category, 8% of the banks scored a rating of 'not applicable' and 92% of the banks provided the required IFRS disclosures under IFRS 7.

The 'not applicable' disclosures were due to accounting policy choices and the overall nature of the banks rather than disclosure deficiencies. This led to the banks scoring an IFRS compliance rating of 100% without any improvements being noted. In terms of the thematic content analysis results, the banks had 13% of the disclosures as 'not applicable', 2% of the disclosures as 'standard' quality and 85% of an 'exemplary' nature. The disclosures that were 'not applicable' in nature were not assessed for their quality, because of the nature of a bank's operations and accounting policy selection. An improvement area was noted for one bank, where the write-off accounting policy was not detailed enough to provide users with an understanding of its application in underlying sections of the bank, which are of a different nature, such as different portfolios or at a retail versus commercial loan book level. However, overall, the banks provided disclosures in this category of high-quality standards that were not considered boilerplate in nature, which leads to the provision of useful information to users. The credit risk disclosures from an overall perspective provide users with the appropriate financial information that allows them to understand how the different credit risk definitions, assumptions, inputs, and methodologies inform the recognition and measurement of the overall ECL loss allowance.

The second category of credit risk disclosures focused on quantitative and qualitative disclosures that arise from an entity's ECL. The disclosure index study accomplished in Chapter 4 illustrated that 12% of the banks did not provide the credit risk disclosures required by IFRS 7, because the disclosures were determined as 'not applicable'; and 88% of the banks included the required remaining disclosures. The disclosures that were rated 'not applicable', as noted above, were due to the nature of the underlying banking operations and accounting policies. Given this, the overall IFRS compliance is deemed to be 100% and thus, no significant areas of improvement were noted. The thematic content analysis revealed that 12% of banks had disclosures that were not assessed for quality, due to the same factors that are previously noted. However, 88% of the bank's disclosure, hold the remaining applicable disclosures at an 'exemplary' standard. The banks were rated 'exemplary' due to them providing entity specific, detailed disclosures to users, which is considered highly useful. This usefulness allows the users to understand how different underlying changes in the gross exposures through events, such as modifications, write-offs, or shifts in IFRS 9 ECL stages effect the overall loss allowance recognised. Further to this, users can sufficiently understand the specific impact of modifications to contractual cash flows, write-offs, and credit risk mitigation implications of pledged collateral.

The last category of IFRS 7 credit risk disclosures assessed were those focused on credit risk exposure disclosures within an entity. The disclosure impact study results, from its performance in Chapter 4, highlighting that 44% of the banks have disclosures that were 'not applicable' and the remaining 56% being sufficiently disclosed in the financial statements. The 'not applicable' disclosures were due to the same reasons as noted above and thus, this has led to all of the banks having an IFRS compliance rating of 100% with no significant improvements noted. The quality assessment of the banks' credit risk disclosures through the thematic content analysis in Chapter 4 shows that 44% of the banks had disclosures that were 'not applicable', which is consistent with the disclosure index study. The other 56% were disclosed at an 'exemplary' quality. Overall, there were no significant areas of improvement noted from the review of the credit risk disclosures, as the disclosures provided were at a standard of high-quality. The banks provided disclosures that were specific to their operations and at a detail that allowed users to gain a deep understanding of the credit processes of the specific banks. The banks would provide disclosures that included more than the necessary minimum requirements of IFRS 7 to ensure that information provided to the users were extremely useful and informative. Given the high usefulness of the credit risk disclosures, users would be able to understand the significant credit risk concentrations and the risk grades within an entity.

5.3 Research study conclusion

Reference is made to the research problem initially highlighted in Chapter 1, which is whether the South African banking institution's credit risk disclosure practices provide financial information that is useful to users such as investors, lenders, and creditors. This research question guided the overall research objectives of the study and its overall execution.

The performance of the disclosure index study which focussed on the existence of credit risk disclosures in the financial statements of the banks were assessed in Chapter 4. The results highlighted that all the banks (100%) have an overall compliance with the requirements of the IFRS without any missing disclosures that are recognised as disclosure deficiencies. There were instances identified where disclosures were rated as 'not applicable', but this was not due to missing credit risk disclosures but rather due to the nature of the different bank's business processes and accounting policy choices.

The thematic content analysis assessment completed in Chapter 4, aimed to assess the overall quality of credit risk disclosures within the financial statements of the banks. Overall, the research study found that most of the credit risk disclosures were of an 'exemplary' standard.

Specifically, these disclosures highlighted characteristics of precision, appropriateness, and entity specificity, which led to the provision of credit risk information that is highly useful in nature for decision-making purposes. The 'exemplary' disclosures highlighted that the banks were able to provide detailed high-quality disclosures in both the IFRS required qualitative and quantitative disclosures equally, with no specific bias showing favour to a specific disclosure type. The banks demonstrated a sound understanding of all critical credit risk principles within the context of their business processes, which was relayed to users in a precise manner.

However, only one specific area of improvement was noted in the performance of the thematic content analysis, which led to a disclosure being seen as 'standard' in nature. This improvement area that is being focused on, is the write-off policies of one bank, which were not at the expected level of detail. To address this improvement area, it is recommended that banks ensure that disclosures of accounting policies are disaggregated into detailed subsets within their businesses. Specifically, within the context of banks, this would be either at a portfolio level or highlights the difference between retail and commercial lending portfolios. However, this disclosure is still acceptable and of a quality that would provide users with useful information for their decision-making processes. No other specific credit risk disclosure areas for improvement were noted.

Overall, based on the results of the research study, the banks within the sample provided credit risk disclosures that are considered useful in nature to users of the financial statements with minimal improvement areas noted. Further to this, given the 'exemplary' quality of the credit risk disclosures in the bank's financial statements, it is noted that these disclosure practices can be seen as benchmark best practices from which other entities can base their disclosures on.

5.4 Further research opportunities

There are numerous opportunities that are available for further research relating to credit risk disclosure practices from a post ECL implementation perspective. The IASB recently published their intention to start the performance of their post implementation review of IFRS 9. Within their review structure, they specifically note the review of ECL impairment. This study provides a basis from which the IASB can perform further assessments or research regarding their post implementation review around credit risk disclosures. The findings within the research paper can also contribute to further aspects that the IASB can explore and centre further research and review on.

The research paper specifically focused on four South African listed commercial banking institutions. This limitation with regards to the overall sampled population leads to further opportunities for research in terms of the assessment of credit risk disclosure practices within other banking institutions within the South African setting. Also, as the population was selected from banking institutions within South Africa, additional research can be performed over credit risk disclosures in banks internationally.

From a regulatory perspective, further research can be performed to assess whether the level of credit risk accounting disclosure practices have a direct impact on the level of regulatory banking disclosures made to users. This would assist researchers in understanding whether the IFRS 7 ECL credit risk disclosures and overall adoption have an impact on other aspects of a bank from a user usefulness perspective.

From a methodology perspective, the study made use of a content analysis in order to obtain the overall results and conclusions. As noted in Chapter 1, a content analysis comes with inherent limitations due its reliance on the judgement and interpretation of the researcher. This opens up research opportunities to take place in the future regarding credit risk disclosures in the banking industry using different research methodologies.

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ANNEXURE A

IFRS 7 Credit risk disclosure requirements

The following credit risk disclosure requirements were obtained directly from the IFRS 7 (International Financial Reporting Standards Foundation, 2021c):

IFRS 7 par	Credit risk disclosure requirements per IFRS 7
The credit risk management practices	
Par35F	An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:
	(a) how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how: (i) financial instruments are considered to have low credit risk in accordance with paragraph 5.5.10 of IFRS 9, including the classes of financial instruments to which it applies; and (ii) the presumption in paragraph 5.5.11 of IFRS 9, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;
	(b) an entity's definitions of default, including the reasons for selecting those definitions;
	(c) how the instruments were grouped if expected credit losses were measured on a collective basis;
	(d) how an entity determined that financial assets are credit-impaired financial assets;
	(e) an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and
	(f) how the requirements in paragraph 5.5.12 of IFRS 9 for the modification of contractual cash flows of financial assets have been applied, including how an entity:

	(i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 5.5.5 of IFRS 9; and (ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 5.5.3 of IFRS 9.
Par35G	An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9. For this purpose an entity shall disclose:
	(a) the basis of inputs and assumptions and the estimation techniques used to: (i) measure the 12-month and lifetime expected credit losses; (ii) determine whether the credit risk of financial instruments has increased significantly since initial recognition; and (iii) determine whether a financial asset is a credit-impaired financial asset.
	(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and
	(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.
Quantitative and qualitative information about amounts arising from expected credit losses	
Par35H	To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument [Refer: paragraphs 6 and B1–B3 and Implementation Guidance paragraphs IG5 and IG6], a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:
	(a) the loss allowance measured at an amount equal to 12-month expected credit losses;

	(b) the loss allowance measured at an amount equal to lifetime expected credit losses for: (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets; (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.
	(c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.
Par35I	To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:
	(a) changes because of financial instruments originated or acquired during the reporting period;
	(b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IFRS 9;
	(c) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and
	(d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.
Par35J	To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted

	in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:
	(a) the amortised cost before the modification and the net modification gain or loss recognised for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and
	(b) the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.
Par35K	To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument [Refer: paragraphs 6 and B1–B3 and Implementation Guidance paragraphs IG5 and IG6]:
	(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32).
	(b) a narrative description of collateral held as security and other credit enhancements, including: (i) a description of the nature and quality of the collateral held; (ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and (iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.
	(c) quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

Par35L	An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.
Credit risk exposure	
Par35M	To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:
	(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;
	(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are: (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets; (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.
	(c) that are purchased or originated credit-impaired financial assets.
Par35N	For trade receivables, contract assets and lease receivables to which an entity applies paragraph 5.5.15 of IFRS 9, the information provided in accordance with paragraph 35M may be based on a provision matrix (see paragraph B5.5.35 of IFRS 9).

ANNEXURE B

Sources and collection of data used in the research study

Bank	Year End	Description of document	Banking website
ABSA Bank	31 December 2020	ABSA Bank Limited Annual consolidated and separate financial statements for the reporting period ended 31 December 2020	https://www.absa.africa/content/dam/africa/absaafrica/pdf/2021/absa-bank-annual-consolidated-and-separate-financial-statements.pdf
First National Bank	30 June 2020	FirstRand Bank Annual report 2020 for the year ended 30 June	https://www.firstrand.co.za/media/investors/annual-reporting/firstrand-bank-annual-report-2020.pdf
Nedbank	31 December 2020	Nedbank Audited consolidated annual financial statements for the year ended 31 December 2020	https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Financial%20Results/Annual%20Results/2020/2020%20Nedbank%20Limited%20Annual%20Financial%20Statements%20(1).pdf
Standard Bank	31 December 2020	The Standard Bank of South Africa Annual Report 2020	https://thevault.exchange/?get_group_doc=18/1622110476-TheStandardBankofSouthAfricaAnnualReport2020.pdf

ANNEXURE C

Independent language and layout editing:

Sonja Broschk
Coaching & Mediation Practice

20/05/2022

EDITING SERVICES

To whom it may concern:

This letter serves to confirm that the Minor Dissertation: "*Credit Risk Disclosure Practices of the South African Banking Industry*", written and researched by **Donovan Koekemoer** for his partial fulfilment for the requirements of his **Master of Commerce in International Accounting** at the **College of Business Economics at the University of Johannesburg**, has been edited before submission by Sonja Broschk.

Yours faithfully

Sonja Broschk MA MNLP ADR

SONJA BROSCHK COACHING AND MEDIATION PRACTICE
082 788 2080

ANNEXURE D

SCHOOL OF ACCOUNTING RESEARCH ETHICS COMMITTEE (SAREC)

Dear D Koekemoer

ETHICAL APPROVAL GRANTED FOR RESEARCH PROJECT

Decision: Clearance granted

This letter serves to confirm that the proposed research project indicated in the table below, has been reviewed by the School of Accounting Research Ethics Committee at the University of Johannesburg. Ethical clearance is granted for 5 years, from

17 March 2022 to 16 March 2027.

Applicant	Donovan Koekemoer
Supervisor	Ms Karabo Sihiya, Prof A Mohammadali Haji
Student number	201471307
Title of Research **MCom (International Accounting)**	Credit risk disclosure practices by the South African banking industry: implementation of the expected credit loss model
Decision date at meeting	16 March 2022
Reviewers	SAREC
Ethical clearance code	SAREC20220316/12
Rating of application	CODE 01

CODE 01 -	Approved	CODE 02 -	Approved with suggestions without re-submission
CODE 03 -	Referred back	CODE 04 -	Disapproved, cannot re-submit

The researcher may now commence with the study providing that:

1. The researcher will ensure that the project adheres to ethical research requirements;
2. The researcher will be conducting the study as set out in the approval application;
3. The researcher will ensure that the project adheres to all applicable legislation, scopes of practice, professional codes of conduct and scientific standards as it pertains to the field or study;
4. The researcher will bring to the attention of the research ethics committee any proposed changes, concerns that arise, and unexpected ethical management issues;
5. Any changes that can affect the study-related risks for participants or researchers must be reported to the committee in writing;
6. All relevant permission required to access data, organisations, etc. has been obtained;
7. No fieldwork activities may continue after the ethical clearance has expired. A request for an extension of ethical clearance can be made in writing to the REC.

Please note:

- It is recommended that when results are presented, reference should not be made to a company in particular. Companies should be referred to as a collective or in general. Alternatively, using pseudonyms (e.g. Company A, B, etc.) can be considered.

Prof M Bornman

Chairperson: SAREC

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