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RISKS OF SECURITIZATION OPERATIONS IN THE ORGANIZATION'S INTERNAL CONTROL SYSTEM

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The article deals with the concept of risks of securitization operations in various classifications with the division into categories and groups, as well as risks of protection systems and mechanisms for their reduction.

Introduction. The effectiveness of the functioning of economic entities largely depends on the quality of organized control, since it is intended not only to identify shortcomings and violations, but also to prevent them, as well as to facilitate timely elimination. Internal control is the most important part of a modern management system that allows you to achieve the goals set by the owners, with minimal expenses. The relevance of the research on the risks of securitization operations in terms of internal control is due to the fact that risks have a direct impact on the financial result of the operation, on the completeness and accuracy of the reflection of securitization results in the accounting system. Securitization of transactions is definitely followed by risks. In this regard, when organizing accounting for securitization operations, it is not always possible to use the existing risk classifications, since they are not universal and do not take into account the specifics of operations. Therefore, the development of a classification of securitization risks in the organization's internal control system is of particular relevance and practical significance.

Reliable accounting of securitization transactions requires special knowledge and experience, including the understanding of "the characteristics and risks of the industry in which the client operates" [1]. 42 literary sources of domestic and foreign economists including 5 tutorials were studied. In the course of research.

The economic environment is actively discussing the concept of "risk". It is defined as danger, as volatility (volatility), or as uncertainty. There is an opinion that risk is an independent category. According to Donaldson's definition, risk is generally a probable loss. Downes and Goodman specify this definition by adding a measurability category, and define risk as measurable probable real damage and / or lost profits.

The purpose of this research is to study the risks peculiar to securitization operations and to develop their classification for the purposes of the organization's internal control system, minimizing them, which in its turn will allow to avoid distortions in accounting and reporting when reflecting securitization operations.

Research methods. The research methods are: synthesis, analysis, comparison, logical generalization, reasoning by analogy, classification and grouping.

Main part. The complexity of the securitization transaction, and the lack of development of regulatory legal documents make it necessary to involve a large number of participants. In practice, the presence of representatives of different parties of the transaction is necessary, among other things, to reduce the risks that will be discussed below.

A distinctive feature of securitization is its dependence on the risk management system. Operational risks are presented throughout the entire cycle of the securitization transaction. These risks are determined by the lack of significant experience in conducting such operations and the ongoing stage of optimizing business processes and debugging information systems.

As we have already stated, at the moment there is no common definition of risk. For example, E. S. Stoyanova and M. G. Stern define risk as "the probability of losses or non-receipt of income in comparison with the predicted option". L. N. Tepman claims that the risk is "a threat, a risk of damage". A more detailed definition is put forward by V. V. Kovalev, who believes that the risk is "the level of financial loss expressed by:

- the possibility of not achieving the goal;
- the uncertainty of the predicted result;
- the subjectivity of the assessment of the predicted result [2].

In our opinion, the most accurate definition is given by R. Copps, who considers that risk is "the possibility of losses due to the occurrence of a certain event" [3].

Thus, according to the results of the conducted research, we think that the risks of securitization operations are the probability of an event that may affect the achievement of the set goals, including the financial result of the transaction. The novelty of this definition is that it takes into account that risk must be distinguished from losses, which can be calculated, whereas risk is a probability that can only be evaluated by experts. In other words, risk is the probability of loss.

In order to assess and effectively manage the level of risk, it is necessary to be able to correctly group risks. The most well-known classification of securitization risks was proposed by H. P. Baer, who distinguished coverage

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risks, that is, the risks of the allocated asset itself, as well as securitization risks, or risks that directly depend on the chosen method of structuring, which is determined by the legal complexity of securitization, the use of a large number of financial instruments and a variety of participants.

Consider the classification of securitization risks by Baer in Table 1.

Table 1. – Classification of securitization risks by H. P. Baer

Classification feature	Class/ Group
1. Coverage Risks	<ul style="list-style-type: none"> - Credit risk is the risk of late performance of obligations to pay the principal and accrued interest (including the risk of default of the borrower, the risk of devaluation of collateral on the loan); - Early repayment risk – the risk of the investor receiving the full or partial amount of funds before the agreed period; - Reinvestment risk – the risk of lower interest rates when reinvesting capital in case of an early return of funds.
2. Legal and regulatory risks	<ul style="list-style-type: none"> - The risk of government intervention is the establishment of direct or indirect barriers to securitisation transaction on the part of public authority; - Risk of non-recognition of the transaction by the supervisory authority, including non-recognition of the write-off of assets from the originator's balance sheet; - Documentation risk – incomplete documentation provided.
3. Risks of the structure and flow of payments	<ul style="list-style-type: none"> - Operational risk is failure of computer programs, errors in payments and money transfers; - Fraud risk is the risk of selling non-existent claims.

Note: own development based on the study of economic literature

In our opinion, the main disadvantage of this classification is the lack of division into financial and legal risks. The latter is of a great importance, as the legal risks vary depending on the jurisdiction.

In terms of accounting, the risks associated with securitization are mainly classified as it is done in IFRS 7 "Financial Instruments: Disclosures". Consider them in Figure 1.

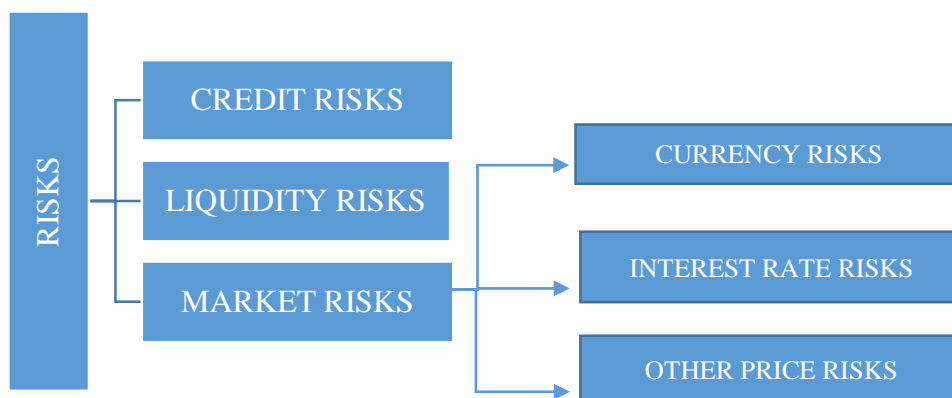


Fig. 1. – Classification of risks in accordance with IFRS 7 "Financial instruments: Disclosure of information"

Due to its essence, credit risk, liquidity risk, market risk and its components characterize the economic reasons for the occurrence of uncertain situations that can cause accounting data misstatements.

Legal risk is the possibility of changes in legislation that infringe or restrict the rights and interests of the parties to the transaction. Perhaps, securitization operations are most exposed to legal risk compared to other financial instruments, since the term of circulation of securities during securitization is often ten or more years. The duration of the appeal and the complexity of the transaction structure bring legal risks into the main group of risks that threaten the transaction.

Tax risks, partly being legal (related to gaps in tax legislation), in terms of the consequences of the occurrence of risk events have an impact on the financial result. Incorrectly calculated amounts of taxes can cause penalties that will reduce the financial result.

Taking into account the importance of legal and tax risks in the accounting of securitized assets, it is proposed to supplement the classification established in IAS 7 with legal and tax risks. Consider them in Figure 2.



Fig. 2. – Proposed classification of risks in the organization's internal control system

Thus, the proposed classification will allow us to obtain a more accurate assessment of the risks associated with securitization operations and, accordingly, to develop methods to minimize them.

To form reliable accounting statements or any other financial information, it is important to understand what exactly can be distorted.

Distortions in the accounting and reporting of the enterprise in terms of reflecting securitization operations can be associated with the following risks:

- risks associated with the recognition, completeness and accuracy of the accounting for assets and liabilities related to securitization operations;
- risks associated with the valuation of the objects of securitization transactions;
- risks associated with the recognition of income and expenses (gains and losses) related to securitization operations;
- risks associated with the correct reflection of cash flows related to securitization transactions;
- risks associated with the disclosure of securitization information.

To understand what substantive procedures can be developed in the future when conducting accounting for securitization operations, it is advisable to make a classification table based on the last two classifications considered, in which the rows will correspond to the types of risks, the columns will correspond to the types of risks due to their causes, the marks at the intersection of the rows and columns will determine the need to develop and include in the program the actions aimed at confirming the risks that affect potential distortions. Consider the classification table of the risks of securitization operations in Table 2.

Table 2. – Classification table of types of risks of securitization operations

Risks of misstatement of financial information	Risks in terms of their causes						
	Legal risks	Tax risks	Credit risks	Liquidity risks	Market prices		
					Currency risks	Interest rate risks	Other price risks
1	2	3	4	5	6	7	8
1. Risks associated with the recognition, completeness and accuracy of accounting for assets and liabilities related to securitization operations	+						
2. Risks associated with the valuation of the objects of securitization transactions		+					

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The ending of table 1

1	2	3	4	5	6	7	8
3. Risks associated with the recognition of income and expenses (gains and losses) related to securitization operations			+				+
4. Risks associated with the correct reflection of cash flows related to securitization transactions				+		+	
5. Risks associated with the disclosure of securitization information					+		

Note: own development based on the study of economic literature

Filling in the classification table in the form in which it is presented in Table 2 allows you to prioritize the development of a program of procedures for minimizing risks in securitization transactions, for further reflection in accounting and reporting. Consider how structuring helps to minimize different types of risks in Table 3.

Table 3. – Types of risks and methods of their minimization in securitization transactions

Types of risks		Methods of minimizing
Legal risks		Identified and minimized with the help of legal consultants
Tax risks		Identified and minimized with the help of tax consultants
Credit risks		Credit reinforcement, credit selection criteria Requirements for portfolio parameters High quality assurance High quality of the service company
Liquidity risks		The risk is minimized through a proper pricing policy. At the same time, they proceed from the basic rule: the higher the spread is (the difference in price) that the dealer holds between the sale price and the purchase price of the paper, the higher the liquidity risks.
Market prices	Currency risk	Currency risk occurs when securities are denominated and payable in a currency other than the currency in which the underlying asset is denominated and payable. The ruble is set as the currency in the selection criteria
	Risks of offsetting claims	Loans to individuals with deposits in the bank are not included in the portfolio Creating special reserves
Interest rate risk	general interest rate risk	Using interest rate swaps
	the risk is that changes in interest rates will lead to early repayment of obligations by borrowers, the claims that are passed to the SPV	Rating system Proper examination of the transaction Subordination of investors Prohibition on early repayment Introduction of sanctions for early repayment
	Early repayment risk / reinvestment risk	Rating system Proper examination of the transaction Subordination of investors Prohibition on early repayment Introduction of sanctions for early repayment
Risk of payment delays		Liquidity Providers Reserve funds

Note: own development based on the study of economic literature

Taking into account the results of the study, it can be concluded that understanding the risks of possible negative consequences is necessary at all stages of internal control of the organization: planning; assessment of the accounting system. Conducting analytical and detailed procedures will help you assess the risks and minimize them in the best way.

Conclusion. In the context of risk-based securitization, it is important to organize internal control, which is based on a risk-based approach.

When conducting securitization operations, it is necessary to take into account the general rules of risk management, including two basic conditions for effective management:

1) the risk assessment should be as accurate as possible. It is impossible to overestimate or underestimate certain factors;

2) the difference between risk and loss must be taken into account.

The conducted study of the risks of securitization operations allowed us to offer:

- the author's definition of securitization risks;
- the author's classification of securitization risks in the organization's internal control system;
- the author's development of the classification of risks and methods of their minimization in securitization operations.

The practical significance of the conducted research is that these proposals will allow to identify the risks that affect the occurrence of uncertain situations that may cause misstatements of accounting data these proposals will help, to minimize them, which in its turn will make it possible to avoid misstatements in accounting and reporting when reflecting securitization operations.

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