So you've got your Expected Credit Loss numbers: time to begin your IFRS 9 project….

Those financial institutions who found their expected credit loss modelling wanting, in the light of the requirements of IFRS 9, are starting to see the results of their ECL projects come through: the portfolio-level metrics and parameters that are needed to calculate 12-month and lifetime provisions for each on- and off-balance sheet exposure.

That's half the battle won.

But what do you do with those numbers?

If your models generate nominal ECL values those need now to be discounted to a present value, at the Effective Interest Rate, accounting for any attributable fees or charges (e.g. L/C fees, syndicated loan fees and so on). So you'll need also to decide which time buckets to use for discounting purposes.

You'll need to constantly maintain both 12-month and lifetime figures in your data warehouse, because exposures may hunt back and forth between Impairment Stage 1 and the other 2 stages, changing which ECL is applicable on any given accounting date.

And what if they need to change?

On an individual exposure level you'll need to be able to vary the portfolio-level parameters, to reflect individual circumstances, payment performance, etc. Of course you (and your external auditors and Board Audit Committee) will want to retain a transparent history of those and all other interventions made by those with authority to do so – write-offs and recoveries, significant changes in credit risk and the reasons therefore, and so on.

Governance is key

All of this and much more should be established in accordance with your institution's IFRS 9 Impairment Policy, which will also document the rules for ECL model governance, business model classification, compliance with the transitional provisions, etc., plus your own definitions of 'low credit risk', 'significant increase in credit risk' and the categorisation of all exposures for regulatory reporting purposes. This is an important policy and should be approved at Board Audit Committee level or equivalent.

All of this needs a home

And all of that needs a place to live within the institution – where the necessary data is captured and stored with the required levels of integrity and security (and preferably with as little manual intervention as possible), from which the regulatory returns and MI are generated, where all history and the attendant audit trails are kept and which can be interrogated via drilldown to cash flow level.

KnowCo's technical solution to IFRS 9 responds to all requirements of the Standard applicable to non-complex institutions. You can find further details in our brochure at www.knowco.co.uk

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