International Financial Reporting Standards

Expected Credit Losses

IFRS 9: Financial Instruments

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB or IFRS Foundation

IFRS™

Overview

Guiding principle: Reflect general pattern of deterioration and improvement of credit quality of financial assets

- Expected credit loss model
- Partial expected credit losses recognised at point when financial instruments are recognised or purchased
- Deterioration in credit quality leads to recognition of lifetime losses
- Responsive to changes in information that impact credit expectations
- Robust disclosures to support principle and support comparability

IFRS™

General deterioration model

Credit quality deterioration since initial recognition

Impairment recognition	12-month expected losses	Lifetime expected losses	Lifetime expected losses
Interest revenue	Gross basis	Gross basis	Net basis
	Stage 1	Stage 2	Stage 3

Recognition of lifetime expected credit losses

Recognise lifetime expected credit losses if credit risk has increased significantly since initial recognition

- Assessment based on probability of default (PD)
- Smaller absolute change in PD for good quality assets and bigger change in PD for poorer quality assets
- Operational simplifications:
  - Recognise 12-month expected credit losses if credit risk is low
  - Significant increase has occurred when payments are 30 days or more past due (rebuttable presumption)
- Symmetrical model

How to assess deterioration

- Use best information available without undue cost and effort
- Information to consider includes:
  - Borrower specific
  - Macro-economic
  - Internal default rates and probabilities of default
  - External pricing
  - Credit ratings
  - Delinquencies
- Rebuttable presumption that assets a month overdue have deteriorated

When to calculate net interest

- Calculate interest on net basis when IAS 39 criteria for impairment are satisfied (objective evidence of a loss event)
- Consistent with population considered impaired under IAS 39 today (excluding IBNR)
  - therefore accounting stays the same for these assets

Credit-impaired on initial recognition

- Scope
  - Both *originated* and *purchased* credit-impaired
  - same population as IAS 39 impaired
- Always outside general deterioration model
- Use credit-adjusted effective interest rate
  - No day 1 allowance balance
  - No day 1 impairment loss recognised
- Allowance balance represents *changes* in lifetime loss expectations

Simplified approach for trade receivables and lease receivables

Do NOT constitute a financing transaction (eg short term):

- Allowance is always lifetime expected losses
- Provision matrix can be used

Constitute a financing transaction (eg long term) and lease receivables:

- Policy election:
  - general deterioration model or
  - always recognise lifetime expected losses

Loan commitments and financial guarantee contracts

Apply general deterioration model

- Instruments that create a present legal obligation to extend credit
- Maximum contractual period exposed to credit risk
- Estimate usage behaviour over the lifetime
- Expected losses presented as liability in separate line item

Disclosures

- Amounts arising from expected credit losses:
  - reconciliation for gross carrying amount and loss allowance
  - inputs and assumptions used in measuring 12-month and lifetime expected credit losses
- Effect of the deterioration and improvement in the credit risk of financial instruments:
  - carrying amount by credit risk rating grades
  - inputs and assumptions used in determining whether a significant increase in credit risk has occurred
  - carrying amount of assets evaluated on individual basis

Disclosures

- Write-offs
- Modifications
- Collateral and credit enhancements
- Effects of portfolio or geographical area
- Some exceptions for simplified approach

Transition

- Apply retrospectively, unless not possible to determine initial credit quality without undue cost or effort
  - If initial credit quality not used, evaluate based whether credit risk is low
- Permit but not require restatement of comparatives
- Line-item disclosures comparing IAS 39 and IFRS 9:
  - should be *permitted* but not required for prior periods
  - should not be required for the current period
- Require reconciliation of impairment allowances under IAS 39 and IFRS 9, showing effect of reclassifications from initially applying IFRS 9

Questions or comments?

Expressions of individual views by members of the IASB and
its staff are encouraged.
The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.