IFRS 9 Impairment – In-Depth

Practical Issues for Implementation and Transition To Expected Credit Loss Accounting

December 13-14, 2016 • Toronto

Conference Agenda

Program - December 13

9:00 a.m. – 9:05 a.m.
Opening Remarks from the Chair

George Prieksaitis, Partner, Ernst & Young LLP and
Global Member of the IASB Impairment Transition Resource Group

9:05 a.m. – 10:00 a.m.
IFRS 9 and BCBS Expected Capital Losses – A Comparative Update

Marc Buklis, Managing Director, PricewaterhouseCoopers LLP
Esteban Villacis, Director, Financial Services Advisory, PricewaterhouseCoopers LLP

- "Significant increase in credit risk" – IFRS 9 vs. BCBS terms and objectives
- Similarities and differences in concepts and application
- Regulatory probability of default vs. IFRS 9 probability of default
- OSFI and BCBS expected credit loss guidance including final 2016 BCBS rules
- Integrating BCBS IFRS 9 guidance into accounting processes
- IFRS 9 and Basel III Capital – integration points
- IFRS 9 data requirements vs. Basel capital systems
- Impact on Capital
  -global perspective
  -impact on different product groups
- Anticipated changes to Pillar 3 disclosures

10:00 a.m. – 11:00 a.m.
IFRS 9 Probability of Default – Estimation and Differentiation from Basel Requirements

Mahdi Amri, Partner, Deloitte LLP
Ali Boudhina, Ph.D., Senior Manager, Deloitte LLP

- Clarifying PD terminology
  -probability of default vs. default rate
  -point in time (PIT) vs. through the cycle (TTC) – IFRS 9 vs. regulatory accounting
  -lifetime PD vs. TTC PD
  -use of hybrid PD methodologies
- Calibrating PD
  -understanding the nature of rating models and their objectives
  -adapting TTC or PIT models to meet specific needs
  -ensuring model validation for effectiveness before calibrating
- Estimating lifetime PD
  -adjusting PIT PD for IFRS 9 forward-looking requirements

-forecasting macroeconomic scenarios for long term events
-approaches for macroeconomic adjustment of PD understanding the nature of rating models and their objectives
-developing PD term structure

- Utilizing a simpler approach – criteria and considerations
- Identifying what is not compliant for PD estimation
- Applying PD concepts to examples from different portfolios/segments

11:00 a.m. – 11:15 a.m. – Morning Networking Break

11:15 a.m. – 12:30 p.m.
Estimating Credit Losses – Modelling Loss Given Default (LGD)

Sohail Farooq, Co-Founder, Nexx Consultants

- IFRS 9 definition of "credit loss"
  - -key parameters of "credit loss" under IFRS 9
  - -what is "cash shortfall" and how is it to be computed?
  - -is LGD equivalent to "cash shortfall"?
  - -secured vs. unsecured exposures
  - -credit enhancements
- Estimating/modelling LGD
  - - LGD estimation approach
    - -using IRB LGD models for IFRS 9 LGD
    - -differences between IRB LGD and IFRS 9 LGD estimates
- Approaches for measuring and estimating LDG
  - -Basel LGD vs. IFRS 9 LGD
  - -discounting LGD using effective interest rates
- Considerations for the development of an effective LGD model
- Forward looking adjustments
- Issues for larger institutions vs. smaller institutions

12:30 p.m. – 1:30 p.m. – Luncheon

1:30 p.m. – 2:40 p.m.
Stage Assessment and Stage Migration

Abhimanyu Verma, Partner, KPMG LLP
Sandeep Patkar, Senior Manager, KPMG LLP
Raghuvir Rajagopalan, Senior Manager, KPMG LLP

- Interpreting significant increase in credit risk
- Assessing credit risk – required information and it sources
- Challenges for different exposures
  - -non-retail
  - -retail
- Measuring PD at origination – portfolio and segment considerations
- Establishing criteria for reflecting portfolio quality deterioration over time
- Short term comparisons (rating grades, PDs) and lifetime PD comparisons
- Defining credit deterioration triggers – what is acceptable, what do you need
- Incorporating "expected" into deterioration triggers – integrating future looking scenarios
- lifetime forward looking recognition of credit losses on the balance sheets
- When "practical expedients" may be used
  - -balancing practical expedient usage vs. BCBS/OSFI high quality implementation requirements
- Balancing quantitative and qualitative thresholds in staging

- Rebuttable presumptions and how to build them into triggers
- Assessing assets at the individual and group level
- Stage 1 – Stage 2 transfer
  -basing transfer criteria on Basel risk measures
  -what are optimal transfer criterion?
- When must an asset move to Stage 3?

2:40 p.m. – 3:00 p.m. – Afternoon Networking Break

3:00 p.m. – 4:20 p.m.
Exposure at Default (EAD) Under IFRS 9

Sohail Farooq, Co-Founder, Nexx Consultants

- EAD coverage IFRS 9
- What does "lifetime" mean under IFRS 9
- Stage determination under IFRS 9
  -Stage 2 – expected lifetime
  -Stage 3 lifetime
- Basel vs. IFRS 9
- EAD – performing and non-performing accounts
- Addressing long term maturity considerations (12 months and beyond)
- Taxonomy of credit facilities and current industry practices
- A survey of approaches for EAD determination
- Approaches for calculating prepayment and credit conversion factor
- Considerations for segmentation
- Incorporating forward looking EAD parameters to determine Lifetime Expected Losses under IFRS 9

Program - December 14

9:00 a.m.
Opening Remarks from the Chair

George Prieksaitis, Partner, Ernst & Young LLP and
Global Member of the IASB Impairment Transition Resource Group

9:00 a.m. – 10:15 a.m.
IFRS 9 Transition - Current Issues and Hot Topics

George Prieksaitis, Partner, Ernst & Young LLP and
Global Member of the IASB Impairment Transition Resource Group

- Examination of issues affecting Canadian financial institutions arising from ITG discussions
- Working with the Global Public Policy Committee (GPPC) on *Implementation of IFRS 9 by Banks*
- Issues in applying the Basel Committee Consultative Paper on guidance on accounting for expected credit losses" and OSFI Guidelines on Collective Allowances
- Review and results of EY's September "IFRS 9 Observer" global survey
- Current challenges in modelling expected lifetime losses
- Pronouncements from the Financial Stability Board's (FSB) Expanded Disclosure Task Force
- IFRS 9 implementation plans – are you in the right place?

10:15 a.m. – 11:10 a.m.
Build vs. Buy – Implementation and Macro Forecasting Using Excel

Cayetano Gea-Carrasco, Managing Director, Moody's Analytics

- IFRS 9 impairment programs outlook
  - -implementation progress on ECL processes
- Challenges and lessons from organizations of different sizes
  - -data, analytics/scenarios, processes and disclosure/reporting
  - -governance
  - -business impacts: capital, origination strategy and pricing
  - -can Excel be used to manage ECL compliance – when would it be appropriate?
  - -case studies of calculations and macroeconomic forecasting using an excel solution
- Build vs. Buy
  - -Moody's experience with firms of different sizes
  - -trade offs, functionality, determining what is really needed
  - -best practices in achieving a common interpretation of the standard

11:10 a.m. – 11:25 a.m. – Morning Networking Break

11:25 a.m. – 12:30 p.m.
Macroeconomic Forecasts – Forward Looking and Probability Weighted

Abhimanyu Verma, Partner, KPMG LLP
Sandeep Patkar, Senior Manager, KPMG LLP
Raghuvir Rajagopalan, Senior Manager, KPMG LLP

- Forward looking recognition of credit losses on the balance sheets
  - -retail/consumer & small business
  - -commercial
  - -corporates and banks
- Consideration of future stage 2 allocation
- Quantitative evaluations and qualitative overlays
- Macroeconomic scenarios – how many are appropriate
  - -profiling the macroeconomic challenge
  - -macro factors and credit factors to incorporate
  - -multiple scenarios vs. multiple outcomes – what is required?
- Determining an unbiased probability-weighted outcome
  - -stress testing IFRS 9 impairments– probability weighted IFRS 9 vs. deterministic
  - -developing the baseline scenario – median as opposed to the mean
  - -what must be considered and modelled?
  - -issues for different portfolios
  - -how to establish assessment is unbiased
  - -Macroeconomic Scenarios and probability weights – where to incorporate them?
  - -IFRS 9 evaluation of a range of outcomes
  - -avoiding bias in in relationships between credit losses and the macroeconomy
- Linking macroeconomic forecasts PIT measures

12:30 p.m. – 1:30 p.m. – Luncheon

1:30 p.m. – 2:30 p.m.
IFRS 9 Impairment Disclosure Including EDTF Guidelines and CSA/OSC Considerations

Eni Petrela, Ernst & Young LLP

- New disclosures for impairment under IFRS 9
  - -credit risk

-asset quality

- Interaction with IFRS 7 and other standards
- EDTF final report on disclosure changes banks will need to make for ECL implementation
  - -recommendations and how OSFI is responding
  - -temporary considerations for transition
  - -permanent considerations surviving transition
- IASB disclosure initiative – considerations for IFRS 9 impairment disclosures
- How new requirements create processes subject to rigors of financial reporting/disclosure
- Implementation process and considerations
- Transition disclosures

2:30 p.m. – 3:30 p.m.
IFRS 9 Expected Credit Losses – Audit Challenges

Amit Chalam, Senior Manager, KPMG LLP

- Identification of significant risks
- Forward-looking information requirements
  - -governance over setting of assumptions
  - -back testing
  - -corroboration with external data
  - -completeness
  - -reasonable and supportable information
- Judgmental considerations
  - -range of estimation uncertainty
  - -granularity of decisions
  - -quality of credit risk data
  - -practical expedients and accounting judgments
- Dealing with estimates not addressed by existing auditing standards
- Adequacy of systems and controls
- Use of experts
- Auditor's involvement in implementation planning

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