



Credit loss recognition under IFRS 9 post COVID-19

Quantifying IFRS 9 Expected Credit Losses (ECL) and credit risk is extremely challenging in this unprecedented economic crisis. Senior management need to plot a course through the uncertainty with a compelling story for their view of future credit losses.

Client challenges

- The economic and credit outcome is highly uncertain which impacts the ability and confidence in banks to meet IFRS 9 commitments.
- Established approaches to identify problem loans may not cope with recent regulatory guidance and high volumes of support being granted.
- Credit risk models are likely to stop working effectively as market trends are well outside design tolerances
- Portfolio credit risk behaviour will differ to previous crises with sudden changes in economic activity, state intervention and social changes never seen before.
- Credit risk impairment practices and disclosure will come under significant scrutiny in the market and have already been the subject of multiple regulatory interventions and elevated press coverage.

How Deloitte can help

Our four-phase framework (first aid kit) is structured to help management navigate this uncertainty, identify problem areas which need to be resolved as a matter of urgency, and brings together experts to decide on the best course of action

Phase	Evaluate	Decide	Implement	Communicate
Benefits	Understand policies/controls/ models; identify weaknesses	Use panels with client and Deloitte experts to decide actions	Obtain approved ECL figures, which inform profitability/pricing	Ensure reporting is compliant and will meet expectations
Activity	Portfolio credit risk profile Scenarios and weightings Policy/ process for identifying problem loans Accounting policy compliance Collective provisioning models Individual provisioning approach	Identify vulnerable populations Challenge and discussion of scenarios Challenge and discussion of Staging rules Challenge and discussion to identify required enhancements	Quantify – estimate impact via in-model and post-model adjustments. Document – write up context, methodology, results and impact. Approval – submit via governance and iterate until approved. “Sense Check” – benchmark and “sense checking” ECL outputs against other points of triangulation.	Facilitate discussion with stakeholders: <ul style="list-style-type: none"> • External auditors • Reporting to Senior Management and Board committees • External disclosure (e.g. Annual Report and Accounts)

Our framework is designed to be delivered within a 3 to 6 week timeframe, bringing Deloitte’s experts to work with internal SMEs across all relevant areas including credit risk, accounting and financial reporting controls, IFRS 9 technical requirements, risk modelling, economics and econometrics, data and governance.

Outcomes

Following the completion of our work, clients will:

- Have a prioritised list of activities to address the challenges relating to IFRS 9
- Be able to engage with internal and external stakeholders with greater confidence, regarding the way forwards
- Understand the potential range of impacts and approaches to manage the priority sources of distress, from IFRS 9 transitional capital issues to urgent Post Model adjustments requiring stronger governance
- Understand the effectiveness of the governance, controls and internal reporting are effective in the new environment

Industries: Banks
Stakeholders: CFO, CRO, Head of Accounting Policy, Head of Impairment, Head of Credit Risk, Head of Risk Modelling

Key contacts

Thomas Clifford
Partner
thclifford@deloitte.dk
+45 30 93 40 31

Jakob Lindberg
Partner
jalindberg@deloitte.dk
+45 30 93 42 77

Bjørn Lagerstam
Partner
blagerstam@deloitte.dk
+45 30 93 48 30

Our points of view

Our experts have published regular specialist points of view since the crisis began:

[Mar 2020: Accounting impacts of COVID-19](#)

[Apr 2020: Classifying forbearance and problem loans](#)

[Apr 2020: Credit risk modelling assumptions study](#)