



# 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
<b>Benefits</b>	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
<b>Activity</b>	<ul style="list-style-type: none"> <li>Portfolio credit risk profile</li> <li>Scenarios and weightings</li> <li>Policy/ process for identifying problem loans</li> <li>Accounting policy compliance</li> <li>Collective provisioning models</li> <li>Individual provisioning approach</li> </ul>	<ul style="list-style-type: none"> <li>Identify vulnerable populations</li> <li>Challenge and discussion of scenarios</li> <li>Challenge and discussion of Staging rules</li> <li>Challenge and discussion to identify required enhancements</li> </ul>	<ul style="list-style-type: none"> <li>Quantify – estimate impact via in-model and post-model adjustments.</li> <li>Document – write up context, methodology, results and impact.</li> <li>Approval – submit via governance and iterate until approved.</li> <li>“Sense Check” – benchmark and “sense checking” ECL outputs against other points of triangulation.</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate discussion with stakeholders:                             <ul style="list-style-type: none"> <li>• External auditors</li> <li>• Reporting to Senior Management and Board committees</li> <li>• External disclosure (e.g. Annual Report and Accounts)</li> </ul> </li> </ul>

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

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## 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](#)