Sixth Global IFRS Banking Survey
No time like the present

May 2016
Preface

We are delighted to welcome you to the Sixth Global IFRS Banking Survey, the culmination of several months of work by Deloitte around the world and a snapshot of how banks are responding to the challenge of implementing expected credit loss.

With IFRS 9 published almost two years ago now, we wanted to find out more about how banks are approaching implementation of IFRS 9 focussing on how technical impairment requirements and modelling challenges are being addressed.

In this context, our global financial services industry group has collated the views of 91 banks, to keep you informed of how the industry is responding to this significant accounting and regulatory change as deadlines loom and expectations rise.

We continue to be extremely grateful to all the institutions and individuals who have participated in this survey, and thank you warmly for your ongoing contributions. We hope you find this report valuable.

If you wish to discuss any of the themes raised by our research, please contact one of us or your usual Deloitte contact. We look forward to continue working with you as you implement IFRS 9.

Regards,

Mark Rhys
mrhys@deloitte.co.uk
Global IFRS for Banking Co-Leader
Deloitte United Kingdom

Jean-Marc Mickeler
jmickeler@deloitte.fr
EMEA Financial Services Audit Leader
Deloitte France
About the Survey – Participants

This survey captures the views of 91 banks from Europe, the Middle East & Africa, Asia Pacific and the Americas.

We received responses from 16 of the 22 non-US global systemically important financial institutions (G-SIFIs) determined by the Financial Stability Board (FSB), including 14 of the 18 G-SIFIs who are International Financial Reporting Standard (IFRS) reporters.

Of the 91 banks, 39 have gross lending over €100bn. For some questions in this survey we provide the responses of these 39 banks separately to those of other banks as it is clear that there is an emerging divergence in approach to many implementation dilemmas.

In most instances, responses have been coordinated from the accounting policy or finance area although many respondents have sought the views of other key areas of the bank such as the credit risk department.
Total estimated programme budgets continue to increase. However, more than three quarters of these budgets have yet to be spent, with less than 2 years to transition date.

Almost half of banks think they do not have enough technical resources to deliver their IFRS 9 project and almost a quarter of these do not think that there will be sufficient skills available in the market to cover shortfalls.

60% of banks either did not or could not quantify the transition impact of IFRS 9. Of the banks who responded, the majority estimate that total impairment provisions will increase by up to 25% across asset classes.

70% of respondents anticipate a reduction of up to 50 bps in core tier 1 capital ratio due to IFRS 9. The vast majority does not know yet how their regulators will incorporate IFRS 9 numbers into regulatory capital estimates.

Most price makers expect that moving to an ECL model will have an impact on product pricing, while most price takers still think that this is unlikely to have an impact on product pricing.

In general, approximately half of participants are unsure of the answer to many key modelling design questions, which may delay banks’ IFRS 9 programmes.

Data quality and, in particular, the availability of the origination lifetime PD, is the biggest data concern for the majority of banks.

Despite IAS 8 requirements and EDTF recommendations, over 40% of banks do not plan to disclose quantitative information before 2018.
What do you see as the 3 biggest programme management challenges faced by your IFRS 9 programme?

- **40% (25%)**
  - Clarity around acceptable and compliant interpretation of IFRS 9 across global and local regulators, auditors and competitors

- **27%**
  - Access to internal resources across Finance, Risk, IT and the Business

- **12%**
  - Access to external resources with adequate skills and IFRS 9 experience

- **11%**
  - Coordination across functions, legal entities and geographies

- **10%**
  - Insufficient budget allocated to IFRS 9 due to competing priorities and change programmes

* Participants were asked to rank options. Participants’ responses have been weighted, assigning a greater weight to higher ranked options than lower ranked options. Percentages displayed are based on total weighted responses.

** 5th survey
### IFRS 9 impairment: change programme

**Which 3 areas do you see as the most critical technical implementation tasks of IFRS 9?**

<table>
<thead>
<tr>
<th>Task</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data requirements to support model development as well as determining significant increases in credit risk</td>
<td>34%</td>
</tr>
<tr>
<td>Development of statistical expected credit loss (&quot;ECL&quot;) models</td>
<td>25%</td>
</tr>
<tr>
<td>Systems architecture for the calculation and reporting of the IFRS 9 ECL number</td>
<td>20%</td>
</tr>
<tr>
<td>Governance framework, e.g. for the experienced credit judgement process</td>
<td>7%</td>
</tr>
<tr>
<td>Processes and controls</td>
<td>7%</td>
</tr>
<tr>
<td>Preparing the individuals and teams in the bank for a seamless transition in 2018</td>
<td>7%</td>
</tr>
</tbody>
</table>

* Participants were asked to rank options. Participants’ responses have been weighted, assigning a greater weight to higher ranked options than lower ranked options. Percentages displayed are based on total weighted responses.
### How would you describe your bank’s IFRS 9 methodology and roll-out approach?

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group-wide consistent IFRS 9 methodology rolled out in a centralised manner across portfolios, legal entities and geographies</td>
<td>50%</td>
</tr>
<tr>
<td>Group-wide consistent IFRS 9 methodology rolled out in a federated manner across portfolios, legal entities and geographies</td>
<td>12%</td>
</tr>
<tr>
<td>A combination of (a) and (b)</td>
<td>30%</td>
</tr>
<tr>
<td>No group-wide consistent methodology established, roll-out is decentralised</td>
<td>8%</td>
</tr>
</tbody>
</table>
When do you anticipate starting and finishing (or when did you start or finish) the following project phases relating to your IFRS 9 programme?

Some respondents believe they will be running multiple phases concurrently in their IFRS 9 programmes. A few respondents expect to continue working on their IFRS 9 programmes after 2017.
To what extent are you considering a parallel run between your IFRS 9 approach and the existing IAS 39 approach?

<table>
<thead>
<tr>
<th>Eighteen months</th>
<th>One year</th>
<th>Three quarters</th>
<th>Two quarters</th>
<th>One quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>24%</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

7% of respondents have no plans to implement a parallel run. Shorter parallel runs are typically, but not always, associated with relatively smaller respondents.
Are you planning to restate comparatives on transition to IFRS 9?

The majority of the “Don’t know” answers received are from relatively smaller respondents, which may be a reflection of the stage of their projects.
Do you expect to have to estimate your IFRS 9 ECL number before 2018?*

- Yes, for internal communication – to consider wider impacts across the business (e.g. budgeting, stress testing, regulatory/economic) 80%
- Yes, for external communication with regulators 53%
- Yes, for internal communication – to update Investor Relations 36%
- Yes, for external communication with analysts/rating agencies (e.g. ‘fully loaded IFRS 9 numbers’) 24%
- No intention of communicating IFRS 9 ECL numbers before 2018 9%
- No intention of estimating IFRS 9 ECL numbers before 2018 3%

* Participants were asked to tick all options that apply. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.
IFRS 9 impairment: change programme

Does your IFRS 9 programme include IT solutions/system enhancements?

- **Yes, a strategic change of existing systems or introduction of new systems**: 66%
- **Yes, a tactical upgrade of existing systems**: 37%
- **Yes, a tactical change for 2018 and potential strategic change post 2018**: 17%
- **No**: 10%

Respondents over €100bn of gross lending: 37%, 37%, 11%, 6%
All other respondents: 66%, 16%, 17%, 10%
What is your estimated total budget (including all internal and external costs) to change to a fully compliant IFRS 9 programme?

Respondents over €100bn of gross lending

<table>
<thead>
<tr>
<th>Budget Range</th>
<th>3rd Survey</th>
<th>4th Survey</th>
<th>5th Survey</th>
<th>6th Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>€25 million - €100 million</td>
<td>10%</td>
<td>10%</td>
<td>24%</td>
<td>39%</td>
</tr>
<tr>
<td>€5 million - €25 million</td>
<td>27%</td>
<td>33%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>&lt;€5 million</td>
<td>38%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All other respondents

<table>
<thead>
<tr>
<th>Budget Range</th>
<th>3rd Survey</th>
<th>4th Survey</th>
<th>5th Survey</th>
<th>6th Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>€25 million - €100 million</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;€5 million</td>
<td></td>
<td></td>
<td></td>
<td>79%</td>
</tr>
</tbody>
</table>

The population of respondents over €100bn of gross lending participating in our surveys year-on-year has been consistent and, therefore, the comparison of budgets is possible. However, the composition of all other respondents has changed, making their budgets not comparable. Therefore, a comparison is not provided for these institutions.
How is that total estimated budget split between what has already been spent from inception to today and what will be spent from today to completion?

Respondents over €100bn of gross lending:
- 21% from inception to today
- 79% from today to completion

All other respondents:
- 11% from inception to today
- 89% from today to completion

35% of participants did not reply to this question.
35% of participants did not reply to this question. There is no clear difference between respondents over €100bn of gross lending and all other respondents in terms of percentage budget planned to be spent on IT.
Do you believe there are enough technical resources available within your bank to deliver your IFRS 9 programme?

If ‘No’, do you think there will be enough technical expertise in the external market to cover any internal resource shortfall?

- **Yes, there are enough technical resources internally:** 54% (40%*)
- **No, there are not enough technical resources internally:** 46% (60%*)
- **Yes, there will be enough technical resources in the external market:** 21%
- **No, there will not be enough technical resources in the external market:** 79%

*5th Survey*
How many full-time equivalent resources do you think are required to implement your IFRS 9 programme?

Respondents over €100bn of gross lending

- Total no. of resources
  - 0-10: 12%
  - 11-25: 13%
  - 26-50: 25%
  - 51+: 50%

All other respondents

- Total no. of resources
  - 0-10: 31%
  - 11-25: 43%
  - 26-50: 12%
  - 51+: 14%
How many additional working days after year-end will you need for the production of the IFRS 9 impairment figures?

Generally, respondents over €100bn of gross lending feel they will need fewer additional days after year-end for the production of their IFRS 9 impairment figures. Nearly two-thirds of respondents to this question anticipate needing additional days after year-end for the production of their IFRS 9 impairment number. This could result in increased costs for banks.
Do you expect your bank’s current reporting timescales to be extended to accommodate the production of IFRS 9 ECL numbers?

Do you anticipate making changes to your year-end process (e.g. introduce pre-year-end hard close procedures) in order to accommodate workload associated with IFRS 9?

**Extension of timescales?**
- No: 73%
- Yes: 27%

**Changes to year-end process?**
- No: 47%
- Yes: 53%
Assuming no changes to your loan portfolio, what do you expect the change in your bank’s total impairment number to be on transition date?

In almost all cases, respondents over €100bn of gross lending expect an increase in their total impairment number. For all other respondents, while the majority expect an increase, there is a significant minority anticipating no change in the total impairment number.
Assuming transition date was today, what would you expect the change in your bank’s total impairment number to be on transition to IFRS 9?

Most banks estimate that loan loss provisions will increase by up to 25% across asset classes on transition to IFRS 9.
Assuming transition date was today, how would you expect this impairment number to be split between stages 1, 2 and 3?

We asked participants to provide details of the split of their IFRS 9 impairment number between stages 1, 2 and 3. However, relatively few participants were able to respond to this question or provided us figures highlighting assumptions or limitations. Therefore, we are not presenting a graph summarising results for this question.
Assuming transition date was today, what percentage of your total loan balance do you expect to be classified as Stage 2?

Respondents over €100bn gross lending:
- Mortgages: 13% (0-1%), 25% (2-5%), 37% (6-10%), 25% (11-20%), 14% (More than 20%)
- Other retail loans: 29% (6-10%), 57% (11-20%), 42% (2-5%), 29% (11-20%), 14% (More than 20%)
- SME: 29% (6-10%), 42% (2-5%), 29% (11-20%), 38% (2-5%), 14% (More than 20%)
- Corporate: 24% (6-10%), 38% (2-5%), 38% (2-5%), 6% (0-1%), 33% (More than 20%)
- Securities: 33% (6-10%), 67% (2-5%), 67% (2-5%), 6% (0-1%), 33% (More than 20%)

All other respondents:
- Mortgages: 21% (0-1%), 19% (2-5%), 19% (6-10%), 33% (11-20%), 13% (More than 20%)
- Other retail loans: 42% (6-10%), 56% (11-20%), 40% (2-5%), 38% (11-20%), 25% (More than 20%)
- SME: 20% (6-10%), 20% (2-5%), 40% (11-20%), 13% (0-1%), 31% (More than 20%)
- Corporate: 18% (6-10%), 25% (2-5%), 38% (11-20%), 13% (0-1%), 31% (More than 20%)
- Securities: 31% (6-10%), 61% (2-5%), 61% (2-5%), 13% (0-1%), 31% (More than 20%)
Do you expect on an on-going basis a significant impact on the volatility of your P&L account under IFRS 9 when compared to IAS 39?

Respondents over €100bn of gross lending

- **Yes**: 81%
- **No**: 19%

All other respondents

- **Yes**: 64%
- **No**: 36%
### IFRS 9 impairment: quantitative impact

#### How would you define your pricing strategy?

**Do you think moving to an ECL model will affect the cost of the following products for customers?**

Participants that have defined themselves as **price makers** think that moving to an ECL model will affect the cost of the following products for customers as shown below:

<table>
<thead>
<tr>
<th>Product</th>
<th>Probably or certainly</th>
<th>Potentially</th>
<th>Unlikely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>8%</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>Other retail loans</td>
<td>50%</td>
<td>62%</td>
<td>23%</td>
</tr>
<tr>
<td>SME</td>
<td>20%</td>
<td>27%</td>
<td>35%</td>
</tr>
<tr>
<td>Corporate</td>
<td>11%</td>
<td>45%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Participants that have defined themselves as **price takers** think that moving to an ECL model will affect the cost of the following products for customers as shown below:

<table>
<thead>
<tr>
<th>Product</th>
<th>Probably or certainly</th>
<th>Potentially</th>
<th>Unlikely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>6%</td>
<td>29%</td>
<td>65%</td>
</tr>
<tr>
<td>Other retail loans</td>
<td>11%</td>
<td>30%</td>
<td>59%</td>
</tr>
<tr>
<td>SME</td>
<td>11%</td>
<td>41%</td>
<td>48%</td>
</tr>
<tr>
<td>Corporate</td>
<td>12%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Securities</td>
<td>8%</td>
<td>17%</td>
<td>75%</td>
</tr>
</tbody>
</table>
Do you expect the introduction of your ECL model to have a significant impact on credit risk management practices?

49% No
51% Yes
For strategic planning purposes, what is your best estimate of the change in your bank’s core tier one capital ratio resulting from the transition to an ECL model (assuming a static current capital model – no change to Basel or to buffers/add-ons)? (e.g. select “Decrease of 0-50bps” if you expect tier one capital ratio to fall 20 bps from 18% to 17.8%)
IFRS 9 impairment: modelling and accounting

Expected credit loss model approach

How are you looking to approach the level of sophistication and proportionality across portfolios for IFRS 9 implementation?

- IFRS 9 will be implemented at the same level of sophistication across all portfolios
- Less material portfolios will be subject to a less sophisticated methodology, with potential use of practical expedients
- Sophistication will vary based on sophistication of markets/countries in which exposure arise
## IFRS 9 impairment: modelling and accounting

### Expected credit loss model approach

<table>
<thead>
<tr>
<th>In terms of ECL model development to deliver IFRS 9, which option(s) best describes your approach?*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage existing models used for Basel purposes (e.g. regulatory capital, economic capital, stress testing)</td>
</tr>
<tr>
<td>Leverage existing models (IAS 39) used in the existing collective impairment methodology</td>
</tr>
<tr>
<td>Leverage existing models used for internal rating models</td>
</tr>
<tr>
<td>Leverage existing models used for operational purposes (e.g. application and behavioural scorecards)</td>
</tr>
<tr>
<td>Build new models for IFRS 9 purposes only</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

*Most important factor
**Second most important factor

Generally, there is a higher proportion of respondents over €100bn of gross lending that expect to build new models for IFRS 9 purposes.

* Participants were asked to tick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.
For your chosen IFRS 9 ECL model, how would you describe your approach?

<table>
<thead>
<tr>
<th>Approach Level</th>
<th>Mortgages</th>
<th>Other retail loans</th>
<th>SME</th>
<th>Corporate</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple (i.e. straight line PDs, EADs and LGDs; defined contractual measures; simple forward looking macroeconomic information)</td>
<td>15%</td>
<td>19%</td>
<td>15%</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>Intermediate (i.e. based on the “Simple” approach but incorporates some of the characteristics of a “Sophisticated” state)</td>
<td>36%</td>
<td>34%</td>
<td>37%</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Sophisticated (i.e. marginal PDs; complex behavioural measures; extensive forward looking macroeconomic information; EAD and LGD behavioural profiles)</td>
<td>49%</td>
<td>47%</td>
<td>48%</td>
<td>48%</td>
<td>39%</td>
</tr>
</tbody>
</table>

The larger respondents with over €100bn of gross lending are typically expecting to implement a more sophisticated approach in comparison to all other respondents. When considering only those banks that participated in both the 5th and 6th survey, there is a decrease in the expected implementation of a simple approach. This suggests that the majority of new participants are opting for a simple approach.
On average, what proportion of your total IFRS 9 impairment balance do you expect to be derived from model-driven estimates as opposed to experienced credit judgement adjustments?

Generally, only the smallest participants in our survey expect less than 50% of their total IFRS 9 impairment balance to be derived from model-driven estimates.
### IFRS 9 impairment: modelling and accounting

#### Expected credit loss model methodology

**Are you planning to consider dependencies between parameters of your ECL calculations?**

<table>
<thead>
<tr>
<th>Dependency Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, correlations between PD, LGD and forward-looking macroeconomic information</td>
<td>59%</td>
</tr>
<tr>
<td>Yes, linear correlation between PD and LGD</td>
<td>10%</td>
</tr>
<tr>
<td>Yes, non-linear correlation between PD and LGD</td>
<td>9%</td>
</tr>
<tr>
<td>Yes, other</td>
<td>7%</td>
</tr>
<tr>
<td>No, we do not intend to consider dependencies between parameters in our ECL calculations</td>
<td>15%</td>
</tr>
</tbody>
</table>
### IFRS 9 impairment: modelling and accounting

#### Expected credit loss model methodology

**How will survival rate modelling (i.e. probability of accounts staying in the portfolio to contractual maturity) be captured in your ECL calculation?**

- **Mortgages**
  - Not modelled or considered within experienced credit judgement process: 3%
  - Not modelled but considered within experienced credit judgement process: 17%
  - Modelled based on sum of PD and Probability of Closing Good (volume weighted): 28%
  - Modelled based on sum of PD and Probability of Closing Good (balance/EAD weighted): 43%
  - Modelled based on PD only: 9%

- **Other retail loans**
  - Not modelled or considered within experienced credit judgement process: 3%
  - Not modelled but considered within experienced credit judgement process: 14%
  - Modelled based on sum of PD and Probability of Closing Good (volume weighted): 24%
  - Modelled based on sum of PD and Probability of Closing Good (balance/EAD weighted): 52%
  - Modelled based on PD only: 7%

- **SME**
  - Not modelled or considered within experienced credit judgement process: 3%
  - Not modelled but considered within experienced credit judgement process: 10%
  - Modelled based on sum of PD and Probability of Closing Good (volume weighted): 27%
  - Modelled based on sum of PD and Probability of Closing Good (balance/EAD weighted): 53%
  - Modelled based on PD only: 7%

- **Corporate**
  - Not modelled or considered within experienced credit judgement process: 3%
  - Not modelled but considered within experienced credit judgement process: 10%
  - Modelled based on sum of PD and Probability of Closing Good (volume weighted): 20%
  - Modelled based on sum of PD and Probability of Closing Good (balance/EAD weighted): 61%
  - Modelled based on PD only: 6%

- **Securities**
  - Not modelled or considered within experienced credit judgement process: 3%
  - Not modelled but considered within experienced credit judgement process: 13%
  - Modelled based on sum of PD and Probability of Closing Good (volume weighted): 13%
  - Modelled based on sum of PD and Probability of Closing Good (balance/EAD weighted): 66%
  - Modelled based on PD only: 8%

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
How will partial prepayments (i.e. the impact of customers paying down balances earlier than expected but remaining in the portfolio) be captured in your ECL calculation?

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
How will the behavioural maturity (i.e. the expected maturity of a facility as opposed to the contractual maturity) be treated in your ECL calculation?

<table>
<thead>
<tr>
<th>Product/Portfolio</th>
<th>Percentage Modelled for All Products/Portfolios</th>
<th>Modelled for Some Products/Portfolios and Contractual Life to be Used for Other Product/Portfolios</th>
<th>Modelled for All Products/Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>13%</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>Other retail loans</td>
<td>11%</td>
<td>49%</td>
<td>40%</td>
</tr>
<tr>
<td>SME</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Corporate</td>
<td>31%</td>
<td>48%</td>
<td>21%</td>
</tr>
<tr>
<td>Securities</td>
<td>46%</td>
<td>40%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Don’t know: 42%
Responded: 52%
No Response: 6%

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
What sources will you consider when incorporating forward-looking macroeconomic information into your ECL calculation?*

- **Internal information**: 91% (Respondents over €100bn of gross lending), 73% (All other respondents)
- **Regulatory available forecasts**: 49% (Respondents over €100bn of gross lending), 79% (All other respondents)
- **Other externally available forecasts**: 57% (Respondents over €100bn of gross lending), 65% (All other respondents)
- **Other**: 6% (Respondents over €100bn of gross lending), 6% (All other respondents)

*Participants were asked to tick all options that apply. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants' responses to each response option.*
Which approach do you expect to use when incorporating forward-looking macroeconomic information in your ECL calculation?

- Use the most likely scenario to estimate ECL and consider making adjustments to the estimated ECL within the experienced credit judgement process to take into accounts the less likely scenarios.
- Use multiple forward-looking macroeconomic scenarios, estimating ECL for each of these scenarios and weighting each outcome by the probability of each scenario occurring.
- Use a single forward-looking macroeconomic scenario that represents the weighted average of multiple scenarios considered, weighted by the probability of each scenario occurring, to estimate ECL.
- Use a single forward macroeconomic scenario that represents the most likely scenario.

Don’t know 58%
Responded 40%
No Response 2%
The percentage of respondents expecting to use a single forward looking scenario is a concern: unless credit risks are linear (upside and downside risks are symmetrical) a single scenario is unlikely to result in an unbiased measure.

15% of participants did not respond to this question. The graph above shows the results of those participants that did respond to the question.
What is the maximum time horizon used when incorporating forward-looking macroeconomic information into your ECL calculation?

- Don’t know 50%
- Responded 44%
- No Response 6%

- Beyond medium term plan
- Medium term plan limit (assume trends are constant thereafter)
- Medium term plan limit (assume levels are constant thereafter)

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
Which of the following best describes how you will incorporate forward-looking macroeconomic information into your ECL modelling process?

- **6%** Not modelled with the impact of forward-looking macroeconomic information considered within the experienced credit judgement process
- **6%** Modelled based on a distribution of historic loss outcomes but not conditional on a single or multiple defined forward-looking scenarios
- **7%** Modelled conditional on a multiple defined forward-looking scenarios including a stressed scenario, each with a defined probability
- **7%** Modelled conditional on a single defined forward-looking scenario with tail risk events and non-linearity considered within the experienced credit judgement process

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
How frequently will you monitor and consider updating the forward-looking macroeconomic information used in your ECL calculation?

Respondents over €100bn of gross lending

<table>
<thead>
<tr>
<th></th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Bi-Annually</th>
<th>Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents over €100bn of gross lending</td>
<td>6%</td>
<td>79%</td>
<td>3%</td>
<td>9%</td>
</tr>
</tbody>
</table>

All other respondents

<table>
<thead>
<tr>
<th></th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Bi-Annually</th>
<th>Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other respondents</td>
<td>17%</td>
<td>46%</td>
<td>8%</td>
<td>21%</td>
</tr>
</tbody>
</table>

A small proportion of all respondents will monitor their ECL calculation using different monitoring timetable. These timetables include bi-weekly or on an ad hoc basis, taking into account significant events which may trigger specific actions.
## IFRS 9 impairment: modelling and accounting

### Significant increase in credit risk and stage allocation

### How do you expect to define and measure ‘significant increase in credit risk’?*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mortgage</th>
<th>Other retail loans</th>
<th>SME</th>
<th>Corporate</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missed payments</td>
<td>66%</td>
<td>65%</td>
<td>56%</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Enters a watch list/specialist problem credit team</td>
<td>35%</td>
<td>30%</td>
<td>49%</td>
<td>50%</td>
<td>31%</td>
</tr>
<tr>
<td>Step changes in internal grading/rating scales</td>
<td>36%</td>
<td>31%</td>
<td>39%</td>
<td>44%</td>
<td>34%</td>
</tr>
<tr>
<td>Modification/forbearance</td>
<td>41%</td>
<td>38%</td>
<td>40%</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>Relative change in lifetime (cumulative) PD compared to lifetime PD at origination</td>
<td>38%</td>
<td>33%</td>
<td>31%</td>
<td>29%</td>
<td>24%</td>
</tr>
<tr>
<td>Change in 12 month PD exceeds a predefined trigger</td>
<td>35%</td>
<td>31%</td>
<td>30%</td>
<td>29%</td>
<td>20%</td>
</tr>
<tr>
<td>Change in lifetime (cumulative) PD exceeds a predefined trigger</td>
<td>16%</td>
<td>15%</td>
<td>11%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Change in 12 month PD in each future year exceeds a predefined trigger</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Participants were asked to tick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.

See comment on next page
If missed payments are a key indicator of ‘significant increase in credit risk’ which measure would be used as the trigger?

<table>
<thead>
<tr>
<th>Loans Type</th>
<th>1 day past due</th>
<th>30 days past due</th>
<th>60 days past due</th>
<th>90 days past due</th>
<th>180 days past due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>1%</td>
<td></td>
<td></td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Other retail</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>SME</td>
<td>11%</td>
<td></td>
<td></td>
<td></td>
<td>14%</td>
</tr>
<tr>
<td>Corporate</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>Securities</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
<td>17%</td>
</tr>
</tbody>
</table>

Whilst missed payments appear the most frequent indicator, please note that this is in conjunction with other drivers of significant increase in credit risk.
Where a change in PD is a key indicator of ‘significant increase in credit risk’, which approach is likely to be used by asset class?*

- Relative change in PD: 56% (Mortgage), 55% (Other retail loans), 54% (SME), 52% (Corporate), 41% (Securities)
- Absolute change in PD: 27% (Mortgage), 33% (Other retail loans), 29% (SME), 19% (Corporate), 16% (Securities)
- Downgrade by certain number of risk grades: 16% (Mortgage), 22% (Other retail loans), 23% (SME), 31% (Corporate), 29% (Securities)
- Fixed level change in PD: 20% (Mortgage), 18% (Other retail loans), 21% (SME), 19% (Corporate), 14% (Securities)
- External rating downgrade: 0% (Mortgage), 0% (Other retail loans), 4% (SME), 10% (Corporate), 16% (Securities)
- Other: 11% (Mortgage), 8% (Other retail loans), 6% (SME), 10% (Corporate), 12% (Securities)

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.

*Participants were asked to tick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.
What other indicators and overriding considerations will you take into account when identifying or calibrating ‘significant increase in credit risk’?*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Mortgage</th>
<th>Other retail loans</th>
<th>SME</th>
<th>Corporate</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most important factor</td>
<td>39%</td>
<td>39%</td>
<td>38%</td>
<td>39%</td>
<td>31%</td>
</tr>
<tr>
<td>Second most important factor</td>
<td>36%</td>
<td>39%</td>
<td>28%</td>
<td>27%</td>
<td>19%</td>
</tr>
<tr>
<td>Changes in the banks’ credit processes and acceptance criteria</td>
<td>21%</td>
<td>32%</td>
<td>31%</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>Changes in expected level of economic return</td>
<td>12%</td>
<td>10%</td>
<td>13%</td>
<td>9%</td>
<td>19%</td>
</tr>
<tr>
<td>Changes in fair value</td>
<td>9%</td>
<td>16%</td>
<td>19%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Changes in pricing of comparable products</td>
<td>18%</td>
<td>19%</td>
<td>19%</td>
<td>24%</td>
<td>25%</td>
</tr>
</tbody>
</table>

*Participants were asked to trick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
When considering the impact of incorporating forward-looking macroeconomic information on your stage allocation process, which of the following approaches are you planning to take?

- Use individual asset level weighted average PDs estimated based on multiple forward-looking scenarios to determine stage allocation at an individual asset level
- Use individual asset level PDs estimated based on a single scenario that represents the most likely outcome adjusted to take into account less likely scenarios within the experienced credit judgement process to determine stage allocation at an individual asset level

Of the participants that did not know the answer to this question, a higher proportion had gross lending of less than €100bn.
### Definition of default

#### How do you intend to define default for IFRS 9 purposes?*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mortgage</th>
<th>Other retail loans</th>
<th>SME</th>
<th>Corporate</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 days past due (excluding technical default)</td>
<td>80%</td>
<td>81%</td>
<td>77%</td>
<td>77%</td>
<td>77%</td>
</tr>
<tr>
<td>Basel ‘unlikeliness to pay’ triggers</td>
<td>43%</td>
<td>43%</td>
<td>47%</td>
<td>49%</td>
<td>40%</td>
</tr>
<tr>
<td>Other factors identified in the IFRS 9 definition of credit-impaired financial asset</td>
<td>27%</td>
<td>28%</td>
<td>31%</td>
<td>31%</td>
<td>27%</td>
</tr>
<tr>
<td>Where allowed, 180 days past due (excluding technical default)</td>
<td>9%</td>
<td>5%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Participants were asked to tick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.
IFRS 9 impairment: modelling and accounting

Definition of default

Will your definition of default be aligned with your definition of Stage 3?

- Yes: 90%
- No: 10%
## IFRS 9 impairment: modelling and accounting

### Practical expedients and rebuttable presumptions

<table>
<thead>
<tr>
<th>Question</th>
<th>Mortgage</th>
<th>Other retail loans</th>
<th>SME</th>
<th>Corporate</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you expect to make significant use of the practical expedients available under the IFRS 9 ECL model?</td>
<td>39%</td>
<td>35%</td>
<td>37%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Yes, we will only gather information that is available without undue cost or effort</td>
<td>30%</td>
<td>34%</td>
<td>32%</td>
<td>33%</td>
<td>31%</td>
</tr>
<tr>
<td>Yes, we expect to use 12-month PD as a proxy for lifetime PD when determining whether credit risk has increased significantly</td>
<td>30%</td>
<td>31%</td>
<td>31%</td>
<td>32%</td>
<td>27%</td>
</tr>
<tr>
<td>Yes, we expect to use the ‘low credit risk’ exemption</td>
<td>8%</td>
<td>5%</td>
<td>5%</td>
<td>11%</td>
<td>25%</td>
</tr>
<tr>
<td>Yes, we expect to apply the simplified approach for trade receivables, contract assets and/or lease receivables</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
<td>12%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Respondents over €100bn of gross lending are less likely to use practical expedients than all other respondents.

*Participants were asked to tick all options that apply for each portfolio. There was no limit to the number of responses that participants could select. Percentages displayed reflect the proportion of total participants responses to each response option.*
Do you expect to rebut the presumption that financial instruments (a) have significantly increased in credit risk if they are more than 30 days past due and (b) default does not occur later than 90 days past due?
What are your biggest concerns about using credit risk management systems and data for financial reporting purposes?*

- Quality of audit trail/Governance: 10%
- Reconciling financial reporting and credit data: 56%
- Data quality: 43%
- Percentages are displayed based on total weighted responses.

*Participants were asked to rank options. Participants’ responses have been weighted, assigning a greater weight to higher ranked options than lower ranked options. Percentages are displayed based on total weighted responses.
## IFRS 9 impairment: modelling and accounting

### Data quality

**Which IFRS 9 data requirements will present the biggest challenge?**

<table>
<thead>
<tr>
<th>Category</th>
<th>Other*</th>
<th>External indicators</th>
<th>Forbearance data</th>
<th>Origination lifetime PD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>34%</td>
<td>12%</td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td>Other retail loans</td>
<td>30%</td>
<td>14%</td>
<td>13%</td>
<td>43%</td>
</tr>
<tr>
<td>SME</td>
<td>34%</td>
<td>11%</td>
<td>13%</td>
<td>42%</td>
</tr>
<tr>
<td>Corporate</td>
<td>33%</td>
<td>12%</td>
<td>14%</td>
<td>41%</td>
</tr>
<tr>
<td>Securities</td>
<td>30%</td>
<td>18%</td>
<td>12%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**“Other” includes arrears data, other internal indicators of unlikeliness to pay, collateral information, behavioural maturity and limit and exposure information.**

**Participants were asked to rank options. Participants’ responses have been weighted, assigning a greater weight to higher ranked options than lower ranked options. Percentages are displayed based on total weighted responses.**
Are you planning to use your IFRS 9 ECL estimates for regulatory capital planning purposes before 2018?

- Yes, for inclusion in ICAAP (quantitative and qualitative): 25%
- Yes, for inclusion in ICAAP (qualitative only): 6%
- No, we will continue to use IAS 39 until 2018: 69%
Has your regulator requested that you include your IFRS 9 ECL numbers into your stress testing scenarios through 2018?

- No: 96%
- Yes: 4%
### IFRS 9 impairment: prudential regulation

<table>
<thead>
<tr>
<th>Has your regulator articulated how they intend to incorporate IFRS 9 ECL numbers into regulatory capital estimates?</th>
</tr>
</thead>
</table>

99% of respondents stated that their regulators have not articulated how IFRS 9 ECL number will be incorporated into regulatory capital estimates.
Following the Enhanced Disclosure Task Force (EDTF)’s 2015 report on the impact of expected credit loss approaches on bank risk disclosures, when do you expect to disclose the following information in line with its recommendations?

<table>
<thead>
<tr>
<th></th>
<th>2015 year end</th>
<th>2016 year end</th>
<th>2017 year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>General concepts, differences from current approach and implementation strategy</td>
<td>30%</td>
<td>61%</td>
<td>86%</td>
</tr>
<tr>
<td>Detailed principles, risk management organisation and capital planning impact</td>
<td>0%</td>
<td>28%</td>
<td>73%</td>
</tr>
<tr>
<td>Quantitative disclosures</td>
<td>5%</td>
<td>5%</td>
<td>58%</td>
</tr>
</tbody>
</table>

14% of respondents are not planning to disclose general concepts, differences from current approach and implementation strategy before 2018.

27% of respondents are not planning to disclose detailed principles, risk management organisation and capital planning impact before 2018.

42% of respondents are not planning to disclose quantitative information before 2018.

There is no clear difference between expectations from respondents over €100bn of gross lending and all other respondents in terms of EDTF disclosures.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAD</td>
<td>Exposure at Default</td>
</tr>
<tr>
<td>ECL</td>
<td>Expected Credit Losses</td>
</tr>
<tr>
<td>EDTF</td>
<td>Enhanced Disclosure Task Force</td>
</tr>
<tr>
<td>EMEA</td>
<td>Europe, Middle East and Africa</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FSB</td>
<td>Financial Stability Board</td>
</tr>
<tr>
<td>G-SIFI</td>
<td>Global Systemically Important Financial Institution</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Program</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
</tr>
<tr>
<td>LGD</td>
<td>Loss Given Default</td>
</tr>
<tr>
<td>PD</td>
<td>Probability of Default</td>
</tr>
<tr>
<td>P&amp;L</td>
<td>Profit and Loss</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
</tbody>
</table>
Survey contacts

Mark Rhys, United Kingdom
Partner – Global IFRS for Banking Co-Leader
+44 20 7303 2914
mrhys@deloitte.co.uk

Jean-Marc Mickeler, France
Partner – Europe, Middle East & Africa Financial Services Audit Leader
+33 1 5561 6407
jmickeler@deloitte.fr

Tom Millar, United Kingdom
Partner – Global IFRS Banking Survey Leader
+44 20 7303 8891
tomillar@deloitte.co.uk

Andrew Spooner, United Kingdom
Partner – Global Head of IFRS Financial Instrument Accounting
+44 20 7007 0204
aspooner@deloitte.co.uk

Su Yen Teoh, United Kingdom
Director – Global IFRS Banking Survey Co-ordinator
+44 20 7303 7548
suteoh@deloitte.co.uk
Further contacts

Stefanie Kampmann, Germany
Partner – Global IFRS for Banking Co-Leader
+49 699 7137 517
stkampmann@deloitte.de

Laurence Dubois, France
Partner – Europe, Middle East & Africa IFRS for Banking Leader
+33 1 4088 2825
ladubois@deloitte.fr

Boon Suan Tay, Singapore
Partner – Asia Pacific IFRS for Banking Leader
+65 6216 3218
bstay@deloitte.com

Sherif Sakr, United States of America
Partner – Americas IFRS for Banking Co-Leader
+1 212 436 6042
ssakr@deloitte.com

Kiran Khun-Khun, Canada
Partner – Americas IFRS for Banking Co-Leader
+1 416 601 4592
kkhunkhun@deloitte.ca