



UNIVERSITY OF EDINBURGH
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CRC | Credit
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Credit Scoring and Credit Control XIV

26 – 28 August 2015

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CreditToday
THE MAGAZINE FOR THE COMMERCIAL AND CONSUMER CREDIT INDUSTRY



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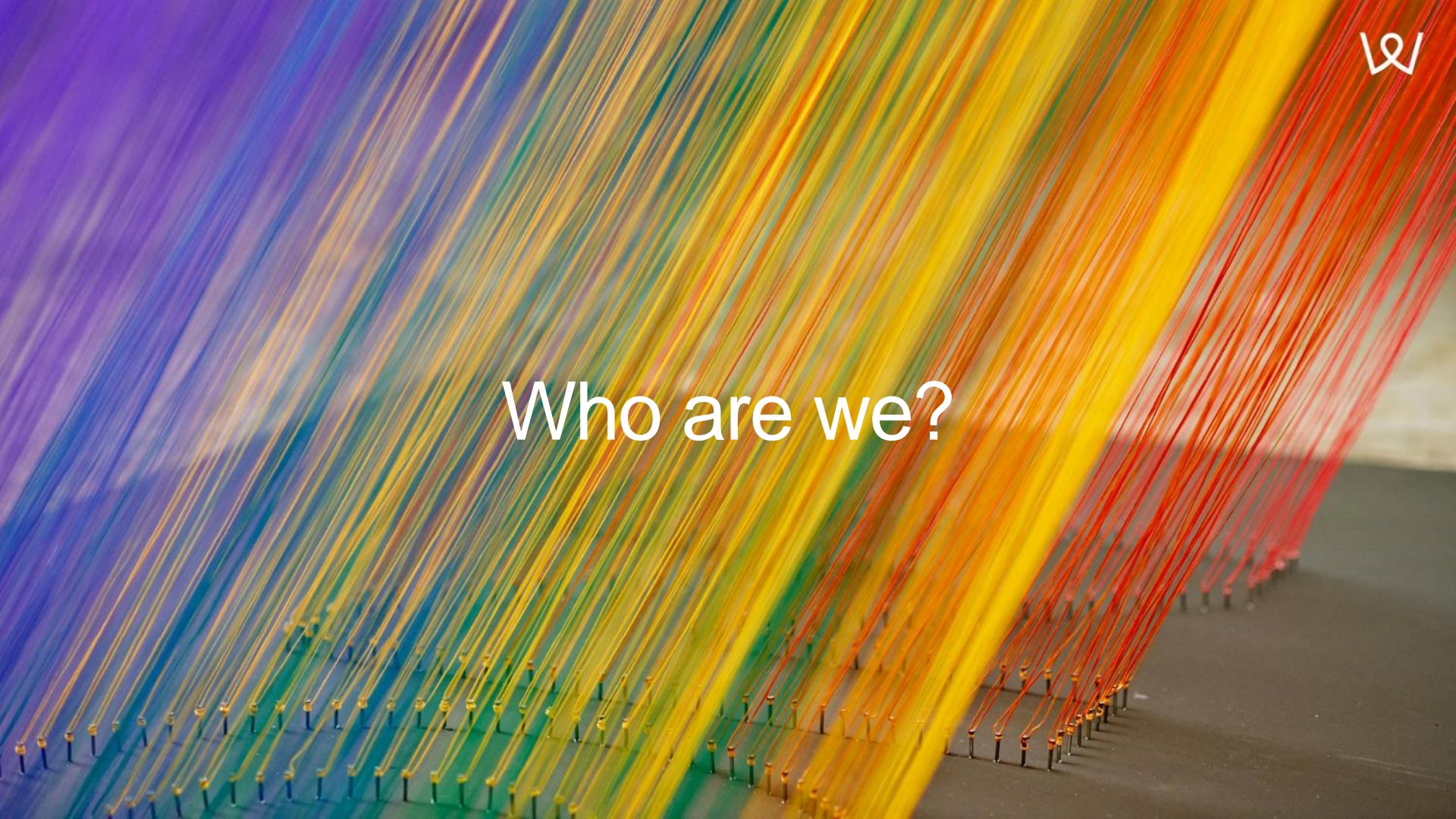


IFRS 9: Evolution not Revolution

Nevan McBride, IFRS 9 Consultant

JAYWING

Who are we?

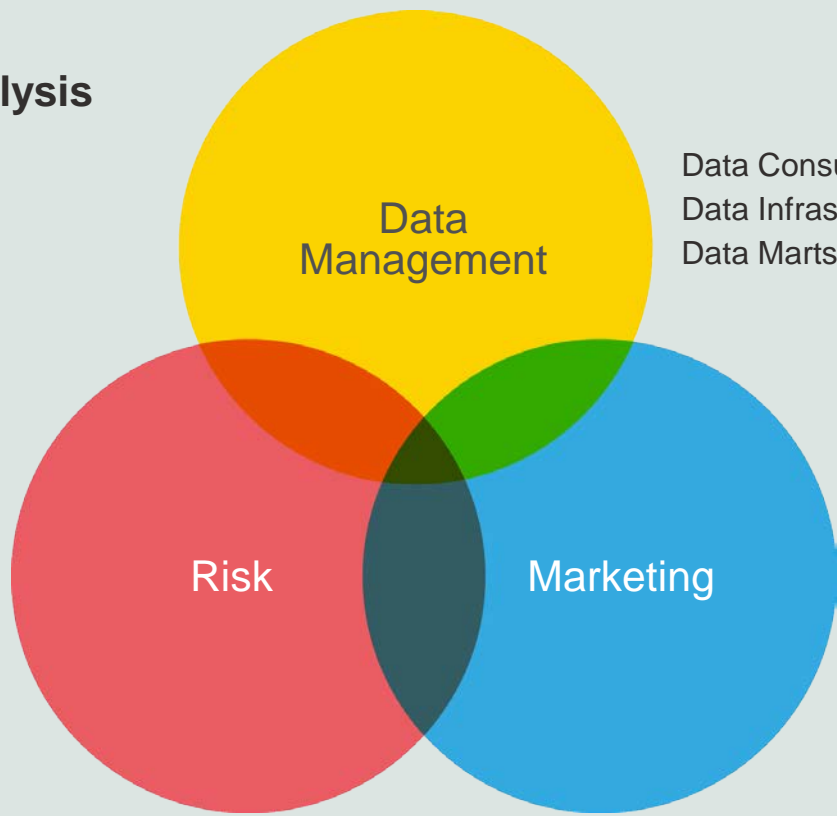




Our Consulting Practice

Founded in 1999, **analysis** is at the heart of our consultancy business.

Modelling & Analysis
Portfolio & Strategy
Fraud Risk
Credit Risk
Regulation



Data Consultancy
Data Infrastructure
Data Marts

Marketing Strategy
Predictive Analysis
Descriptive Analysis
Digital Strategy
Customer Communications



About IFRS 9



What The Regulations Say

1. CLASSIFICATION AND MEASUREMENT

2. IMPAIRMENT

IAS 39

Incurred Loss Model for non-performing assets



IFRS 9

Forward looking view of Expected Losses across all assets

Two key modelling components:

- Stage Allocation
- Lifetime Expected Loss



3. HEDGE ACCOUNTING



IFRS 9 Requirements

Assurance

IFRS 9 Standards
GAECL Guidelines
Governance
Oversight

Modelling

EL Modelling
Stage Allocation
Economic Forecasting
Model Monitoring

Provisions

Adequate
Accurate
Stable

Document

Option Methodology
Model Documentation
Regulatory Standards



Evolution not Revolution



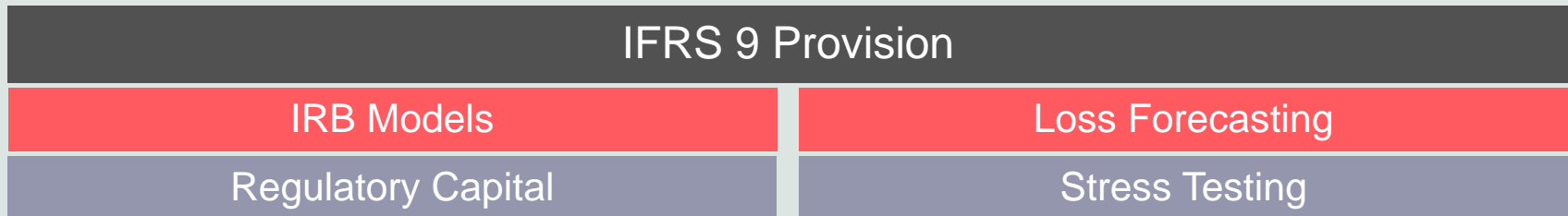
Approaches to IFRS 9 Modelling

Revolutionise - Build a new, comprehensive solution

- New data infrastructures, new credit risk models, distinct programme

Evolve - Use current infrastructure

- Re-use IRB and Loss Forecasting structures and models



An Old Problem in New Clothing

These are not new problems and so may not require a new or a bespoke solution

Advantages of adapting old pieces of kit:



Already understood

Lower effort to develop

More aligned to existing practices & processes

Integrated approach to risk

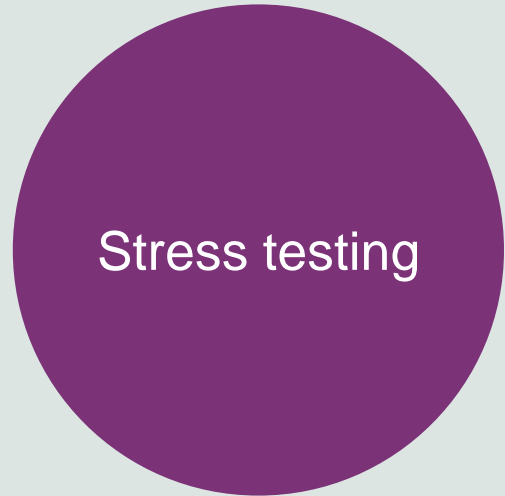
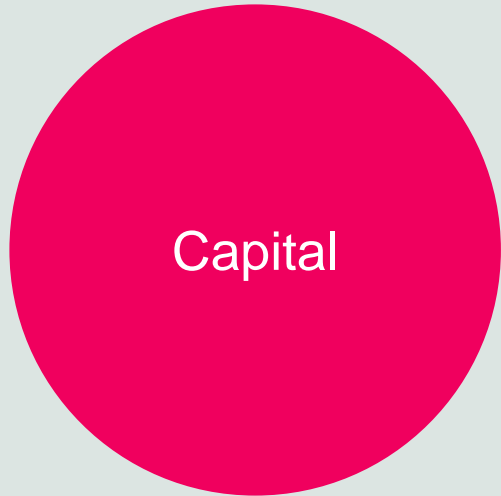


The Link Between Finance and Risk

IFRS 9	
Finance	Risk
Responsible for application of EL for provisions	Knowledge and expertise to accurately measure EL
Embed new rules into accounting practices	Ensure EL models are realistic and effective
Lessons to be learnt from Basel II Waiver applications	



Three Pillars of Finance & Risk





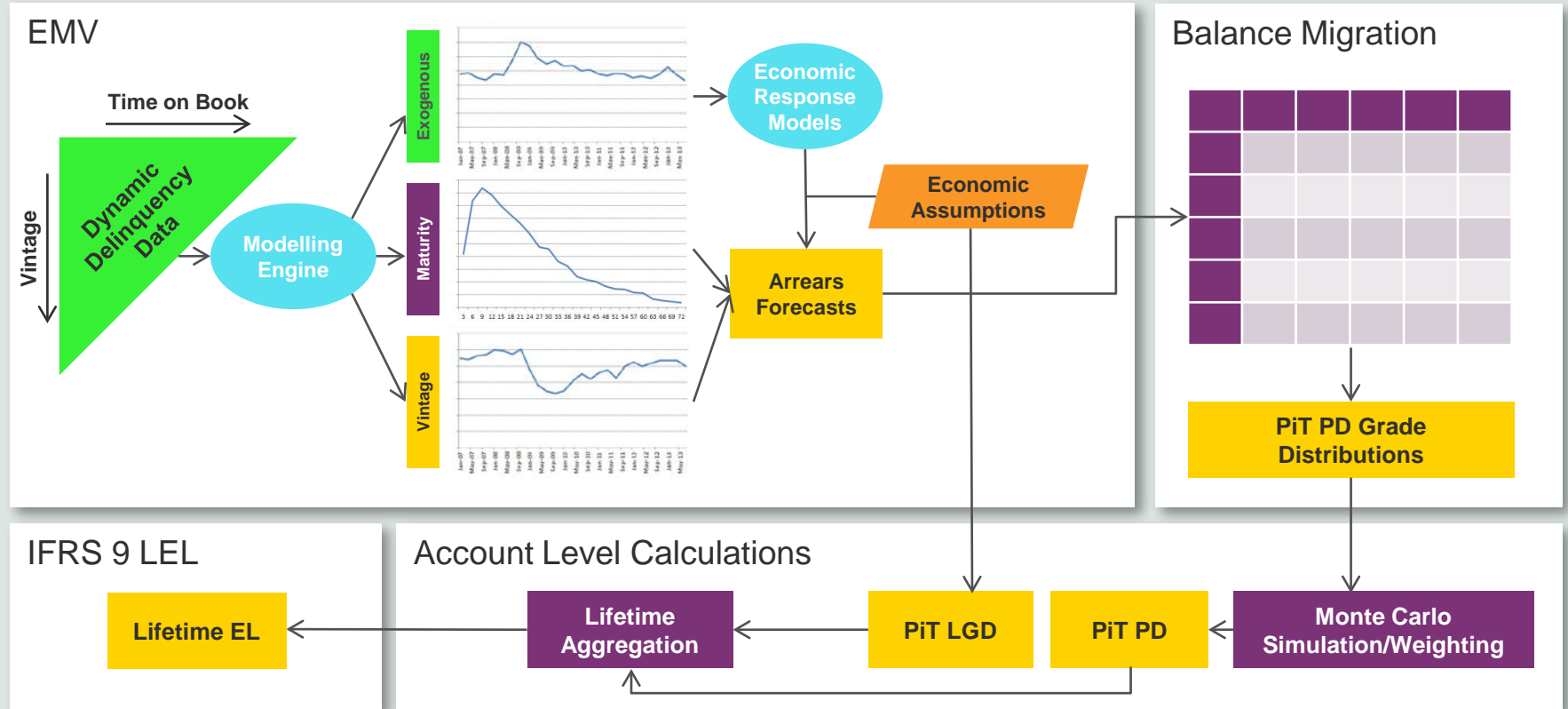
IFRS 9 Impairment Stages

Stage 1	Stage 2	Stage 3
<p>No change to credit risk from origination or 'low risk'</p> <p>Calculate expected loss over 12 months</p> <p>Calculate income excluding potential losses (gross)</p>	<p>Significant increase in credit risk since origination</p> <p>Calculate expected loss over lifetime of account</p> <p>Calculate income excluding potential losses (gross)</p>	<p>Account is impaired</p> <p>Calculate expected loss over the lifetime of the account</p> <p>Calculate income including potential losses (net)</p>
<p>Use Basel or Operational Credit Risk Models</p>	<p>Use Stress Testing Models that cover EL over 5 years</p>	<p>Use IAS 39 models built on impaired accounts</p>



Lifetime Expected Loss

Leveraging Loss Forecasting & Stress Testing Processes

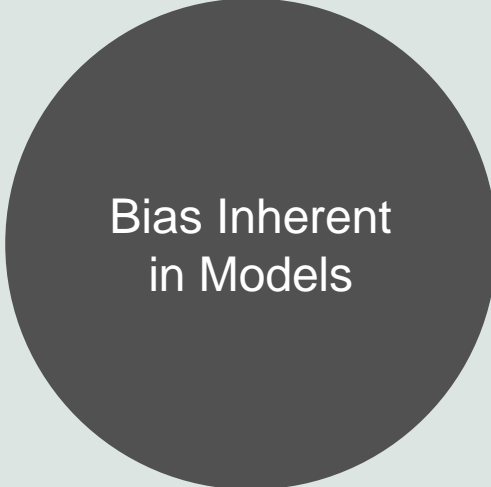




Key Challenges



Model
Availability



Bias Inherent
in Models



Model Definition
Misalignment



10 Steps to Success

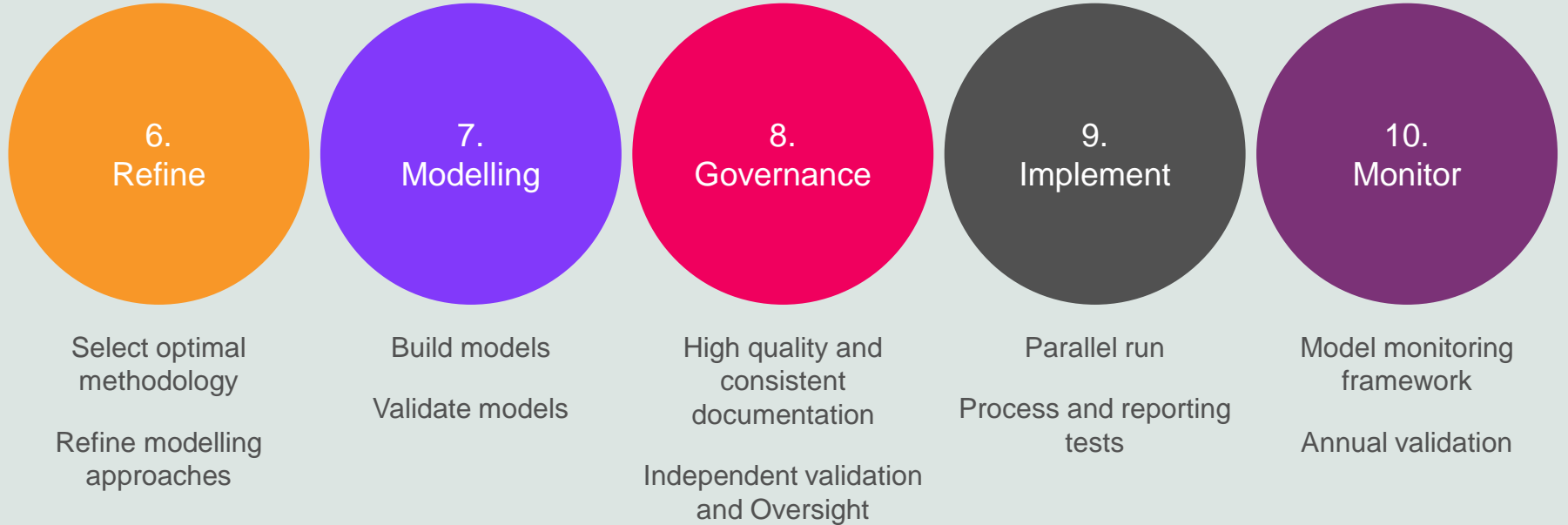


Steps 1-5





Steps 6-10





In Summary

Leverage
existing risk models
and processes

Align IFRS 9
loss forecasting and
stress testing

Leave a legacy
of consistent risk
processes



Principle 7 65

“The use of common processes, systems, tools and data strengthens, to the maximum extent possible, the consistency of the resulting estimates and minimises disincentives to following sound credit risk practices for all purposes ”

Basel Committee on Banking Supervision
'Guidance on accounting for expected credit losses'
Feb 2015



Any Questions?



Thank you

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