**In brief**

A look at current financial reporting issues

**New GPPC paper on IFRS 9 impairment considerations for systemically important banks**

The new financial instruments standard IFRS 9, effective from 1 January 2018, will be a significant change to financial reporting for banks. In particular, the expected credit loss (‘ECL’) impairment requirements will be the most significant accounting change many banks have experienced, even more significant than their transition to IFRS. Time is running out. To be ready by 2018, banks must complete a large multi-disciplinary project combining the skills of finance, risk and IT. A new paper from the Global Public Policy Committee (the ‘GPPC paper’) promotes a high standard of implementation of the new impairment requirements and makes clearer auditors’ expectations.

**What is the GPPC?**

The GPPC is the global forum of representatives from the six largest international accounting networks - BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. Its public interest objective is to enhance quality in auditing and financial reporting.

**Who should read the GPPC paper?**

The GPPC paper is addressed primarily to the audit committees of systemically important banks because of their relative importance to the capital markets and financial stability. However, much of the content will be relevant to other banks and financial institutions.

The paper is structured to assist two key groups within a bank that will be instrumental in the implementation of IFRS 9. First, those charged with governance, who will set the tone for and oversee implementation, including related controls. Second, those charged with implementing the new requirements such as finance, risk management, IT and other executives.

**What does the GPPC paper cover?**

The paper provides practical assistance to banks implementing the new impairment requirements. The paper complements other guidance including the Basel Committee’s Guidance on Credit Risk and Accounting for Expected Credit Losses and guidance from the IFRS Transition Resource Group for Impairment of Financial Instruments. The GPPC paper does not amend or interpret the requirements of IFRSs.

The paper has two main sections: (1) key areas of focus for those charged with governance, including 10 questions those charged with governance may wish to discuss; and (2) key modelling principles targeted at those responsible for implementation.
Section 1: Key areas of focus for those charged with governance

Whilst this section is primarily aimed at those charged with governance, the areas discussed will be relevant to all parties involved in implementing IFRS 9 in a bank. These are:

Governance and controls: broad recommendations in the areas of data quality, modelling, systems, processes and internal controls.

Sophistication and proportionality: factors to consider in determining the level of sophistication required in implementing IFRS 9 impairment, recognising that there is no one size that fits all.

Transition issues: existing policies and practices that may need to be reassessed, and data considerations.

Ten questions those charged with governance may wish to discuss

To help audit committees focus their discussions with senior management, the GPPC paper highlights the following ten questions:

1. What plans are in place to conclude on key decisions, build and test necessary models and infrastructure, execute dry/parallel runs and deliver high quality implementation by 2018?

2. Has the bank identified all changes to existing systems and processes, including data requirements and internal controls, to ensure they are IFRS 9 appropriate?

3. How will reporting processes and controls be documented and tested, particularly for systems and data sources not previously subject to audit?

4. What are the planned levels of sophistication for different portfolios and why are these appropriate?

5. What are the key accounting interpretations and judgements and why are they appropriate?

6. How will a 'significant increase in credit risk' be identified and why are the chosen criteria appropriate?

7. How will a representative range of forward-looking scenarios be used to capture non-linear and asymmetric impacts?

8. What KPIs and management information will be used to monitor drivers of expected credit loss and support governance over key judgements?

9. How will IFRS disclosure requirements be met and facilitate comparability?

10. How will implementation decisions be monitored to ensure they remain appropriate?
Section 2: Key modelling principles

This section is primarily aimed at those finance, risk management, IT and other executives who are charged with implementing the new requirements. It looks in more detail at the key components of implementing ECL accounting. The GPPC paper describes

- one example of a ‘sophisticated approach’
- considerations for a ‘simpler approach’ and
- examples of practices that, subject to materiality, would not be considered compliant.

The areas covered in this section are:

- **ECL methodology**: frameworks for calculating 12-month and lifetime ECLs.
- **Default**: definition of default and the relationship with regulatory definitions.
- **Probability of default (PD)**: calculating PDs and the relationship with regulatory PDs.
- **Exposure**: determining the period of exposure and calculating exposure at default.
- **Loss given default**: modelling considerations, including for secured and unsecured exposures.
- **Discounting**: the interaction between effective interest rates and impairment.
- **Staging assessment**: techniques and considerations in determining significant increases in credit risk.
- **Macro-economic forecasts and forward-looking information**: incorporating different forward-looking information into ECL estimates.
Where can I get more information?

The GPPC paper is available on PwC’s Inform, our comprehensive online accounting resource.

If you have questions about this In brief or the GPPC paper please speak to your normal PwC contact or one of the contacts listed below.

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https://inform.pwc.com/inform2/s/GPPC_paper_webcast_and_podcast_The_implementation_of_IFRS_9_impairment_requirements_by_banks_considerations_for_those_charged_with_governance_of_systemically_important_banks/informContent/1611154806169940

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