

Current Expected Credit Loss

A streamlined solution to help meet new impairment rules.

Recognition of expected credit loss provisions

The Financial Accounting Standard Board's new Current Expected Credit Loss ("CECL") standard is a fundamental shift from the way companies have historically accounted for credit risk. Since this is the first time credit risk modelling will be included in accounting numbers, requirements of the new standard present unprecedented challenges.

The new model requires US GAAP filers to estimate and record expected credit losses ("ECLs") due to credit loss or default for debt securities, receivables, loans, securitized products and many other financial instruments. Firms calculate these ECL amounts through probabilities of default (PDs), losses given default (LGDs) and exposures at default (EADs), in order to estimate expected credit loss provisioning amounts.

In contrast to existing guidance that requires losses to be recognized only when incurred, new CECL impairment rules will lead to earlier recognition of credit losses and significantly impact available capital.

Beyond the traditional accounting department, CECL requires alignment in data and approach between the credit risk department, financial accounting and capital planning.

Challenges in implementing CECL include:

- **Resource & skill gaps** – The development of ECL models requires risk and accounting specialist, with many firms requiring additional external support
- **Data requirements** – ECL modeling requires extensive current and historical data
- **Technical interpretations** – Clients struggle to understand, interpret and apply the CECL standard guidelines
- **Model creation & validation** – Models require estimating complex parameters such as prepayment, call options, future expectations for interest rates, and the credit-adjusted effective interest rate

Bloomberg's Expected Credit Loss solution

Bloomberg's Expected Credit Loss solution saves firms valuable time and money by helping to automate the modeling process. As credit risk models need to be validated and enhanced annually, Bloomberg's ECL solution reduces the need for additional resources to help build credit risk models and assist the accounting department in interpreting and implementing CECL standards – all while providing transparency to management.

Key benefits

- **Comprehensive** – Provides a fully-integrated credit risk solution with full data points for CECL calculations, IFRS 9 ECL calculations and credit risk management
- **Defensible** – Leverages Bloomberg's market-leading credit risk models to produce high-quality accounting results
- **Global** – Extensive coverage of 415,000 government, supranational, agency and corporate debentures



Product overview & technical specifications

Bloomberg's models calculate default risk using a Merton distance-to-default (DD) measure, along with additional economically and statistically relevant factors. Losses given default are calculated based on a forward-looking recovery rate model, considering issuer and instrument specific features:

- Seniority of debt
- Waterfall structure
- Issuer default risk
- Industry characteristics and distress information
- Regional-specific considerations
- Credit cycle

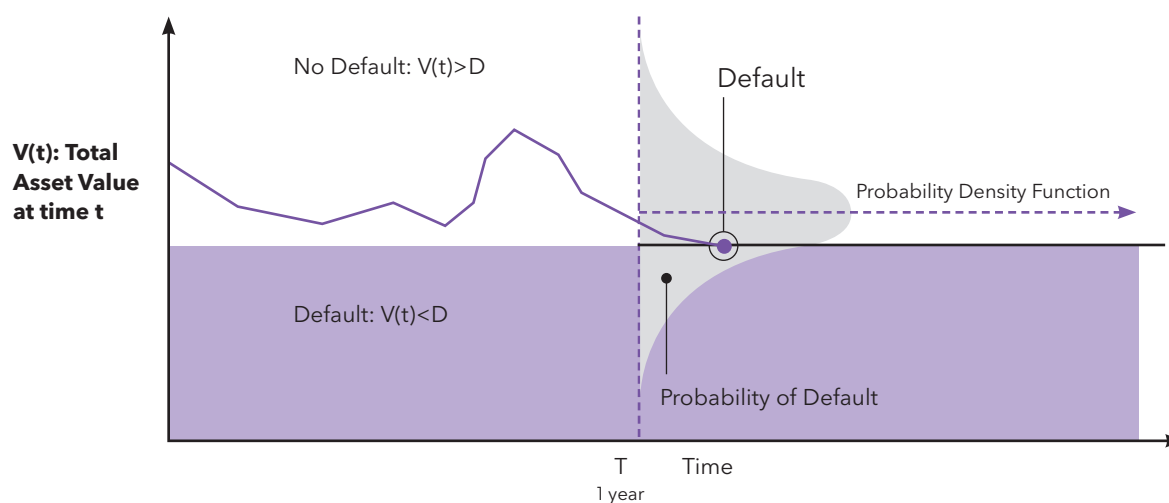
With Bloomberg's ECL solution you can address the challenges of implementing CECL.

- **Efficiencies** – Delivers an automated solution, allowing scarce resources to focus on more core portfolios (no need to develop own internal models)
- **Ease of implementation & consumption** – Feeds directly into existing accounting solutions with daily updates of data

- **Proven credit risk models** – Leverages the existing, market-tested credit risk models for accounting calculations
- **Industry consensus & implicit auditor buy-in** – The product directly incorporates the accounting literature of the FASB, the accounting interpretations of the large accounting firms, and market consensus interpretations of our extensive client base
- **Transparency & auditability** – Product output provides in-depth information on cash flows, discount rates, loss amounts and other information, providing transparency in expected credit loss methodology

In addition to CECL data, this product also provides a comprehensive solution for complying with the IFRS 9 ECL guidance (the international equivalent of the CECL standard) by delivering a full range of IFRS 9-specific data points. This includes 12-month ECL calculations, a full staging analysis, low risk security determinations and many other IFRS 9-relevant data points.

Further, the product also contains extensive default risk and credit risk data, including most traditional credit risk indicators. Therefore, the product can also be used to supplement data for credit risk management purposes.



Bloomberg for enterprise

To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset.

Take the next step.

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