IFRS 9 expected credit loss

Accounting solution addresses the new impairment requirements.

IFRS 9 impairment model requires recognition of expected credit loss provisions

The new IFRS 9 impairment model is a fundamental shift from the way companies have historically accounted for credit risk. It marks the first time that credit risk modelling will be included in accounting numbers. As such, the requirements of the new model present unprecedented challenges. The new model requires IFRS filers to estimate and record expected credit losses (ECLs) due to credit loss or default for all instruments held at amortized cost or fair value through other comprehensive income. To do so, firms must calculate probabilities of default (PDs), losses given default (LGDs) and exposures at default (EADs) to estimate security-level expected credit loss provisioning amounts. This new model is in contrast to the existing guidance, which requires losses to be recognized as they occur. The new IFRS 9 impairment rules will thus lead to earlier recognition of credit losses and significantly impact available capital. The impact of IFRS 9 extends beyond the traditional accounting department. The new standard requires alignment of data and approach between the credit risk department, financial accounting and capital planning.

Some of the common challenges faced by clients include:

- **Resource & skill gaps** – The development of ECL models requires risk and accounting specialists – most firms would need external data and support.
- **Data requirements** – ECL modelling requires extensive current and historical data.
- **Technical interpretations** – Clients struggle to understand, interpret and apply the IFRS guidelines.
- **Model creation** – Models require estimating complex parameters such as prepayment, call options, future expectations for interest rates and the credit-adjusted effective interest rate.

The DRSK default risk model (DRSK <GO>) is the foundation for corporate ECL calculations.

Bloomberg's IFRS 9 expected credit loss solution

The Bloomberg solution saves clients significant time, money and manpower, not as a one-off, but continuously, as credit risk models need to be validated and enhanced annually. With Bloomberg, you no longer need to hire great numbers of credit risk personnel, build credit risk models or bolster the accounting department's resources to interpret and implement IFRS 9 components. Bloomberg's solution is an implementation-ready product that tackles all of these functionalities and, at the same time, provides the necessary transparency to management.

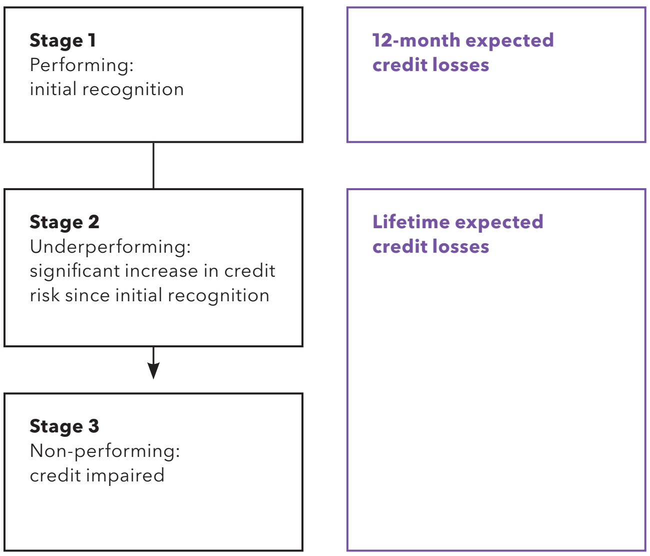
Key benefits

- **Comprehensive** – Provides a fully integrated credit risk solution with all required IFRS 9 fields and data and delivers 29 output fields.
- **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 (e.g., the seniority of debt, waterfall structure, issuer default risk, industry characteristics and distress information, region-specific considerations and the credit cycle). Expected credit losses are calculated on a 12-month or lifetime basis determined by a staging model that is dependent on whether there has been a "significant increase in credit risk" of the issuer since initial recognition as outlined below.

Change in credit quality since initial recognition



Why Bloomberg?

Bloomberg's product addresses the challenges of the new standard by providing an operational solution with the following benefits:

- **Efficiencies** – Product delivers an automated solution, allowing scarce resources to focus on more core portfolios (no need to develop own internal models).
- **Ease of implementation & consumption** – Product feeds directly into existing accounting solutions with daily updates of data.
- **Proven credit risk models** – The solution leverages the existing default risk models to create ECL values.
- **Industry consensus & implicit auditor buy-in** – The product directly incorporates the accounting literature of the IASB and EBA, 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 our expected loss and lifetime methodology.

In addition to IFRS 9, this product includes all of the ECL amounts and default risk information required to use the product for applying the CECL guidance within the U.S. Further, the product contains most traditional credit risk indicators. Therefore, the product can be used for daily 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 and optimizes workflows and operations.

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