# OneSumX IFRS 9: Expected Credit Loss impairment

Banks still face considerable challenges to incorporate supportable and reasonable information about current conditions and forecasts of future conditions into their existing risk models. Our OneSumX IFRS 9 module allows for an end-to-end treatment of expected credit loss (ECL), going from classification, stage assessment, and measurement of ECL to the accounting treatment and disclosure requirements.

**Credit risk assessment – stage determination**
IFRS 9 uses a "three stage model" for expected credit losses based on changes in credit risk from initial recognition and indicators of default.

The credit risk assessment can be performed based on different techniques:

***Credit scoring and probabilities of default (PD) approach***
In this option credit scoring is determined to identify the different sensitivities of the different risk factors making up the credit scoring. Credit risk assessment can then be done using a PD based approach, taking into account reasonable and supportable information of future events and economic conditions.

***Proxy methods***
For contracts that have macroeconomic factors which cannot be gathered without significant costs (IFRS 9 §5.5.11), IFRS 9 allows practical expedients.

Examples of such proxy methods are the provision matrix and loss rate approach.

***Rebuttable assumptions***
Notification and workflow management capabilities inform relevant end-users such as credit officers about deals that breach the 30 and 90 day past due boundaries, which they can either confirm or rebut in a controlled and "4-eyes principle" governed process.

**Expected credit losses measurement**
ECL measurement can be conducted at both an individual and collective basis in our solution. The solution allows users to leverage existing segmentation logic and credit risk information available, such as internal ratings and through-the-Cycle PD.

**Calculation of 12 month and lifetime PDs**
Different methods and models exist within our software to calculate (IFRS 9 compliant) probabilities of default (and loss given default). For example, a transition or Markov Chain method can be used to calculate the PDs related to

different time horizons and per segment and rating grade. When the expected lifetime losses are not within the range of calculation as a consequence of a lack of macroeconomic factors on the longer terms, a matrix multiplication logic can be applied to derive the lifetime expected PD.

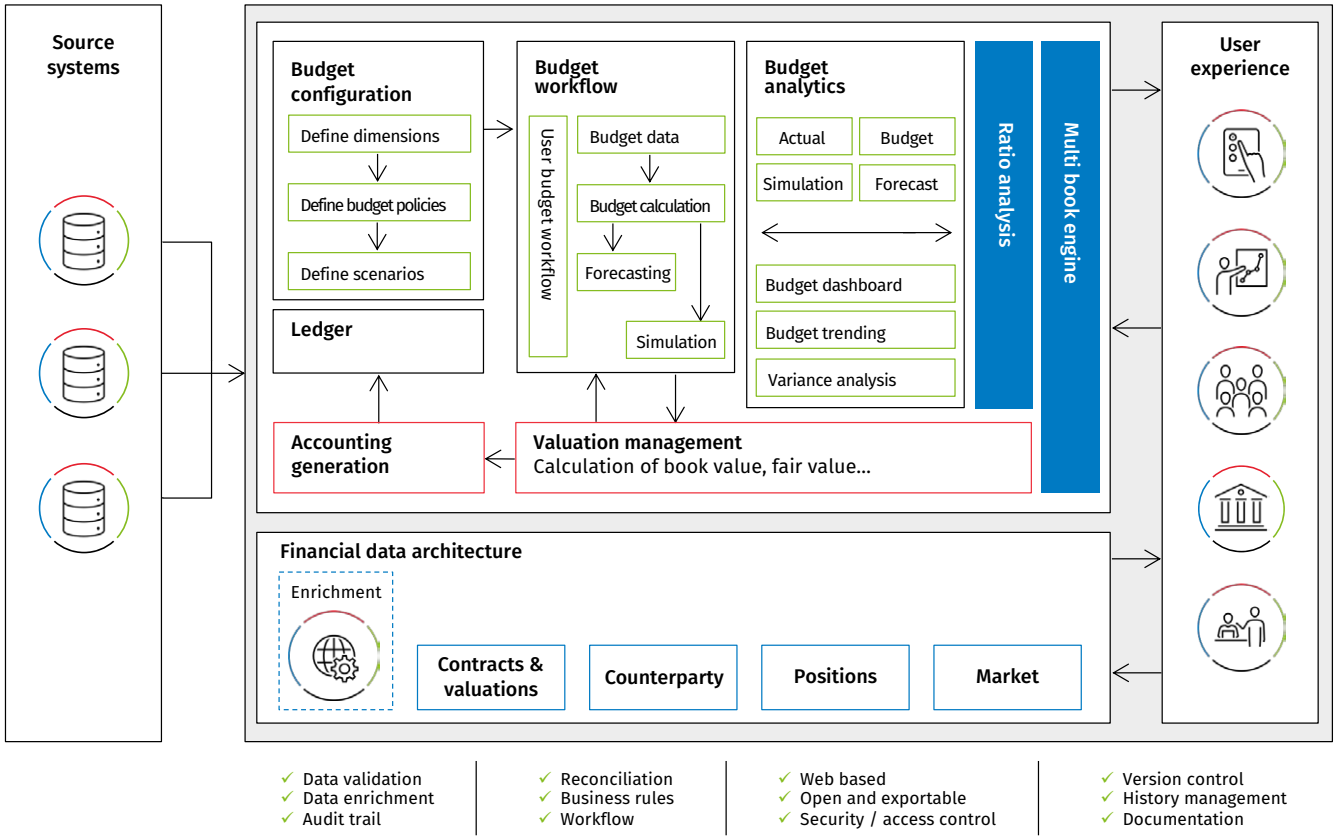
**Stressing macroeconomic factors**
By using a factor based model, macroeconomic and customer specific factors can be stressed, given certain risk sensitivities to these factors.

The outcome of this model under various scenarios are stressed scores which are subsequently used to determine PD and ECL that incorporate forward looking information. By assigning weights that represent the probability of the various simulations, the model arrives at a properly weighted outcome of ECLs.

**Accounting treatment**
The solution includes predefined accounting templates for generating the related IFRS compliant booking entries. Detailed posting information or aggregated balances can be sourced to existing accounting/general ledger systems in the bank's own chart of accounts.

**Disclosures**
The solution includes the various reports for disclosure of the quantitative and qualitative information available in the system as required by the IFRS 9 standard. We also provide support for the treatment of purchased or originated credit-impaired assets under IFRS 9 guidance, going from the CAEIR calculation over ECL calculation to the accounting treatment and disclosures.

**OneSumX for Finance**

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