Moody's
ANALYTICS

CLIENT SPOTLIGHT:

European Banks develop robust IFRS 9 frameworks with Moody's Analytics

The new international accounting standard, IFRS 9, represents a significant change in financial reporting. Banks now need to consider their options for achieving strong governance, appropriate internal controls, and the ongoing ability to report disclosures.

Many financial institutions have already formulated comprehensive IFRS 9 strategies and are currently implementing expected credit loss (ECL) frameworks leveraging the Moody's Analytics Credit Loss and Impairment Analysis Suite, preparing them for parallel runs in 2017.

Moody's Analytics Credit Loss and Impairment Analysis Suite offers banks a flexible and comprehensive IFRS 9 solution, which facilitates robust impairment calculations and supports capital planning. The suite includes credit risk models and data, economic forecasts, advisory services, and infrastructure solutions.

The Primary IFRS 9 Challenge for banks is Implementing the New Impairment Model

An early implementation challenge has been identifying and addressing data gaps for determining impairment procedures and asset reclassification. Often firms point to gaps in credit risk data and the inability to ensure data accuracy as barriers to producing complete results.

The modeling requirements of IFRS 9 mean banks need to develop new ECL methodologies and models that are consistent with regulatory and industry best practices. These requirements include lifetime probability of default (PD) and loss given default (LGD) models, obtaining expected credit losses, and calculating provision and allowance.

Governance processes raise another challenge, as banks need a control framework for data quality, modeling, systems, and processes to demonstrate the impact of ECL estimates on financial statements. The regularity by which banks need to produce IFRS 9 measurements and related disclosures is also a driver for an automated and streamlined process allowing for auditability of the results.

Our Versatile Solution helps Banks Address their Impairment Requirements

Many EBA and PRA multi-jurisdictional banks have engaged Moody's Analytics to manage their impairment calculations in a way that is repeatable, auditable and integrates seamlessly with their existing infrastructures. While smaller banks in Europe and the Middle East have chosen Moody's Analytics modelling solutions and expertise to determine loan classification and obtain credit expected losses.

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"In an age of increasing regulatory demands and accounting standards coupled with declining margins and low profitability, banks of all sizes take advantage of Moody's Analytics suite of IFRS 9 Solutions in an attempt to minimize manual intervention and improve cost savings while enhancing analytics. With the expansion of technology and advanced analytics, banks believe in our IFRS 9 vision and know the value of Moody's Analytics credit modelling expertise and experience in addressing large scale risk and finance transformation programs, where IFRS 9 has become an additional catalyt."

Burcu Guner
Senior Director, IFRS 9 Specialist
Moody's Analytics

The versatility of the Moody's Analytics impairment offering is being used to address numerous challenges surrounding IFRS 9 implementation:

» Enhancing credit risk data quality management and monitoring capabilities, is allowing banks to ensure that data adheres to the standards of accuracy and completeness required by supervisors and auditors for ongoing impairment analysis.

» Sourcing off-the-shelf macroeconomic scenarios for the estimation of credit losses under differing conditions over long forecast horizons.

» Developing new ECL methodologies and models, including tailor-made models and the application for existing modeling frameworks. In particular, we have seen strong demand for our off-the-shelf modeling capabilities to generate forward-looking PDs and LGDs and expected loss for low-default portfolios, retail portfolios, securitized products, and project finance.

» Benchmarking and Calibration of IRB model using our off-the-shelf models to compute PIT PDs under stressed scenarios and assess credit quality deterioration, as per IFRS 9 guidance.

» Establishing robust systems and processes to deliver regular and audited IFRS 9 disclosures. Auditability, traceability, and scalability are essential for historization, workflow management and tracing back results for parallel runs and disclosures. It is also important to tie the IFRS 9 framework to other prudential measures, to support a strategic long-term approach. In this context, financial institutions value Moody's Analytics integrated enterprise-wide software platform.

Moody's Analytics has a successful proven track record helping clients in Europe and in other geographies in the implementation of large-scale regulatory software implementations. We work closely with our clients to ensure that the evolution of our solution fully meets current and future client requirements.

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