International Financial Reporting Standards

Expected Credit Losses
IFRS 9: Financial Instruments

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What does it apply to?

- Debt instruments measured at amortised cost
- Debt instruments mandatorily measured at fair value through other comprehensive income (FVOCI)
- Trade receivables and lease receivables
- Other financial instruments subject to credit risk, such as:
  – some loan commitments
  – some financial guarantee contracts

Expected credit losses will be recognised for *all* of these financial instruments at *all* times.

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Overview of general model

Deterioration in credit quality since initial recognition →

	Stage 1	Stage 2	Stage 3
Expected credit losses recognised	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue	Gross basis	Gross basis	Net basis

Assessment of deterioration in credit quality

Need to assess when significant deterioration has occurred:

- Change in probability of default occurring (not change in expected losses)
- Compared with initial recognition
- Particular measurement methods not prescribed; nor must PD be explicitly included as input
- Maturity matters
- Operational simplifications:
  - Recognise 12-month expected credit losses if investment grade
  - Rebuttable presumption: significant deterioration when payments are more than 30 days past due
  - Don’t need to assess for trade and lease receivables

Other components of the model

- Simplified approach for trade and lease receivables
  - Measure short-term trade receivables at lifetime expected losses
  - Policy election for long-term trade receivables and lease receivables
- Assets credit-impaired on initial recognition
  - Use credit-adjusted effective interest rate
  - Allowance balance represents changes in lifetime losses
- Loan commitments and financial guarantee contracts
  - General deterioration model on instruments that create present legal obligation to extend credit
  - Maximum contractual period exposed to credit risk

Disclosures

- Amounts arising from expected credit losses:
  - reconciliation for gross carrying amount and loss allowance
  - inputs and assumptions used to measure 12-month and lifetime expected credit losses
  - write-offs; modifications; collateral
- Effect of the deterioration and improvement in the credit risk of financial instruments:
  - carrying amount by credit risk rating grades
  - inputs and assumptions used in determining whether a significant increase in credit risk has occurred
  - carrying amount of assets evaluated on individual basis

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Transition

- On transition determine if instruments are at stages 1, 2 or 3 *unless* not possible to determine initial credit quality without undue cost or effort
  - If initial credit quality not used, always evaluate based whether or not 'investment grade'
- Permit but not require restatement of comparatives
- Reconciliation of impairment allowances under IAS 39 and IFRS 9

Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

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