Preparing Finance Organizations for CECL and IFRS 9 Compliance

A Joint Solution from KPMG and SAS

New Standards Usher in a New Era in Accounting and Risk Management

The last financial crisis revealed that financial institutions did not always hold sufficient reserves to cover their exposure to risk. To correct this, accounting supervisors across the globe have introduced changes to make financial reporting more forward-looking and reflective of the true portfolio risk.

In the US, the Financial Accounting Standards Board (FASB) introduced CECL, part of ASU 2016-13 Financial Instruments – Credit Losses, as the new accounting standard for the recognition and measurement of expected credit losses (ECL) for loans and debt securities. CECL, which takes effect from 2020, follows the recent introduction of similar changes to global accounting rules under International Financial Reporting Standard 9 (IFRS 9). Both standards fundamentally change how financial institutions estimate and report portfolio losses and will have drastic impacts on how they manage their portfolios.

The more complex your balance sheet, the more substantial the scope of the change. The new CECL and IFRS 9 standards require a deeper level of credit modeling, analysis, and reporting than was previously required. And these changes are significant in terms of how banks will manage risk and financial data, build their analytic platforms, and share information between departments.

Fortunately, the alliance between KPMG LLP and SAS delivers industry-leading services and technology to help your company navigate the new standards. KPMG takes a multidisciplinary approach to CECL and IFRS 9 adoption, providing services related to accounting and regulatory change as well as the broader risk management and financial data environment. Adopted by more than 75 global financial institutions, SAS® Expected Credit Loss is a market leading modeling and orchestration platform. Together, KPMG and SAS can help your organization address the challenges of these new accounting standards.

KPMG: A Broad and Deep Approach to CECL Services

KPMG is focused on providing high quality, in-depth services related to accounting change and regulatory requirements for new ECL standards. Because these new rules affect multiple aspects of a financial institution's credit risk management framework – including credit models, data processes and IT systems – KPMG's experienced industry and risk professionals also offer a broad range of supporting services that include

- **Data sourcing and data quality controls.** Assess data sources, quality, controls, and lineage. Create source-to-target mapping and data extract, transform, and load (ETL) jobs.
- **Model design, development, and implementation.** Build champion, challenger, and benchmark model designs. Then, prototype, calibrate, and implement those models.
- **Model execution and production automation.** Determine CECL process flow and review internal controls.
- **Results review and effective challenge.** Review model output and provide supporting analysis. Develop documentation for model design and limitations.
- **Accounting and reporting.** Develop documentation for accounting policy and Sarbanes-Oxley controls. Remediate deficiencies and prepare for CFO attestation.

KPMG's professionals bring practical experience, the latest technology tools, deep financial industry knowledge, and cross-functional skills to create a sustainable path towards CECL and IFRS 9 compliance and to help you capitalize on the strategic opportunities the change affords.

SAS®: A Powerful and Efficient Solution for Financial Institutions

One of the world's largest privately held software firms, SAS offers a robust production platform for ECL calculations under CECL and IFRS 9. The SAS Expected Credit Loss solution is model agnostic, supporting models coded with SAS, R, Python, C++, and other languages. No matter what statistical language your company uses for models, you can benefit from the following capabilities in SAS Expected Credit Loss:

- **Data mart and data management tools** so you can source, transform, and load relevant ECL data from any number of data warehouse and origination systems.
- **Model implementation platform** that greatly streamlines model management and maintenance and accelerates the production process for CECL and IFRS 9 estimates.
- **Embedded controls and auditability** to ensure your process remains transparent and defendable quarter after quarter.
- **Menu driven model execution and production automation** that enable you to efficiently manage the production process with reduced operational risks.
- **Customizable dashboards and reports** so you can examine model outputs and manage qualitative adjustments and allocation.
- **Accounting and reporting capabilities** that enable you to create journal entries and disclosures as well as produce management reports at multiple levels of granularity.

With dedicated sales, support, and development resources, SAS delivers a flexible and robust risk software solution scalable for organizations of all sizes.

Meet Your Goals

Finance executives are charged with ushering in new processes to meet domestic and global ECL standards. KPMG and SAS can help executives in these critical areas:

- Meet sophisticated modeling requirements to calculate lifetime expected credit losses.
- Aggregate data and ensure its quality.
- Prepare accounting statements and extensive disclosure reports.
- Implement a transparent and repeatable process that adheres to regulatory requirements and audit standards.

An End-to-End Services and Software Solution

The alliance between KPMG LLP and SAS delivers CECL and IFRS 9 offerings that combine the capabilities and resources of two of the leading market providers: SAS with the dedicated ECL software platform and KPMG with enablement services including in-depth accounting, finance, tax, modeling, and risk specialization. This end-to-end solution allows organizations to develop or leverage models for expected credit loss, generate or import cash flows for securities and other assets, and create the required journal entries and disclosures to compete the accounting requirements within a controlled process framework.

KPMG and SAS' joint ECL solution is centered on the following four key components:

- Data sourcing and management
- Risk models
- Accounting calculations and reporting capabilities
- All within a controlled process orchestration environment

With the right expertise and technology to assist in ECL transitions, KPMG and SAS can guide you through the assessment, design, and implementation phases, and can work with you over time as your requirements change over time.

Assess

KPMG and SAS use a seven-step approach for change assessment and a readiness diagnostic. The results of the diagnostic focus efforts on areas that are most critical to your project's success. The outcome of this phase creates a structure and plan for the subsequent phases of the CECL or IFRS 9 transition.

Design

Leveraging the gap analysis and information from the assess phase, KPMG and SAS work with you to design appropriate accounting policies, operational practices, models, systems, and data management approaches to create ECL-compliant loss projections. This forms the basis of governance and business requirements designed for CECL and IFRS 9 loss forecasting and informs the implementation choices made in the final phase.

Implement

KPMG and SAS will assist you in implementing the CECL compliant practices scoped in the previous phases. Using SAS' proven, incremental approach for implementation, an initial end-to-end configuration is executed on a representative set of portfolios. This pilot is then expanded to include all relevant portfolios, followed by refinement and testing prior to a final go-live date.

Adapt

A successful CECL or IFRS 9 implementation requires that you, first, meet basic compliance requirements and, second, apply the new modeling and data requirements to achieve business objectives. Working together, KPMG and SAS provide the resources to seamlessly deliver complex projects that encompass regulatory review, audit implications, and high visibility.

Qualifying Questions

Consider the following question as you evaluate a partner for your CECL project.

- Do you have a system for calculating lifetime expected losses?
- Can your current systems cope with the expanded calculation and throughput requirements of the new ECL standards?
- Do you struggle to produce impairment figures in a timely fashion?
- Do your existing processes include manual steps or lack end-to-end governance?
- Can you easily understand cause-and-effect relationships in your loss accounting process or determine what drives change in a given period?
- Does your risk management team communicate effectively with your accounting team?

Power of the PARTNER

SAS and KPMG

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For more information

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