



SAS for Expected Credit Loss IFRS9/CECL Implementation Best Practices

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SAS for Expected Credit Loss IFRS9/CECL

General Process

$f(\cdot)$
Model
Library



Asset
Data



Data Check &
Augment



ECL
Calculator



Stage
Allocation



Manual
Adjustment



Approve
Reject



Reportin
g



Economic
Scenario

Management
Reporting
GL Posting
Regulatory
Disclosures

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Implementation Best Practices

Data



Controls

Controls

Models



Reporting

Reporting

Process



Integration

Integration

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Implementation Best Practices

Data



- Start early – don't underestimate the data challenge

- Additional data (all assets)
- Additional data attributes
- Reconcilability

Models



- Start collecting even if you don't have the models finished – use blueprint data model

- Leverage existing Basel models or build new
- In-house build or buy
- Assumption development
- Validations

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Modeling suite examples

Model approach	How ?	Negatives	Positives
Simple IRB adjustment PD model + Vintage curves	PIT adjusted TTC PD + Loss rate curves	Not forward looking	We see being used as a starting point to guarantee compliance and in non-significant portfolios
Hazard/Duration model	Calibrate on past default rates per segment (grade) or panel data	Term-structure is input to the model (may cause issues with limited cohort data – not enough term structure information)	Easy to calibrate in most cases e.g., Weibull is linear
Markov state transition model	Calibrate on past transition rates/history (atomic models or system)	Long sample of past transition rates required for retail/SME (expert calibration for corporates) Empirical evidence that past delinquency and rating momentum matters	Term structure is consequence of model not calibration period
Dynamic state transition model (rating momentum, delinq)	Calibrate on past transition rates (atomic models or system)	Solution may not be trivial e.g., complex Markov iteration or simulation	+ Captures empirical evidence

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Implementation Best Practices

Process



- Processing speed/efficiency – Close in 3 to 5 days
- Cross Risk, Finance, Accounting
- Orchestrate Automate with Manual interventions
- Be pragmatic and define process with all parties around the table

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Implementation Best Practices

- Transparency
- Governance
- Auditability
- End to end view
- Data and Model risk management
- Chose IT solution that guarantees end to end traceability
- Explain the numbers



Controls

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Implementation Best Practices

- Regulatory filings not defined yet
- Public disclosures best practices
- Management reporting is evolving



Reporting

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Implementation Best Practices

- Platform should be leveraged for other usages
- Capital planning
- Stress testing
- RWA
- ICAAP
- ...



Integration

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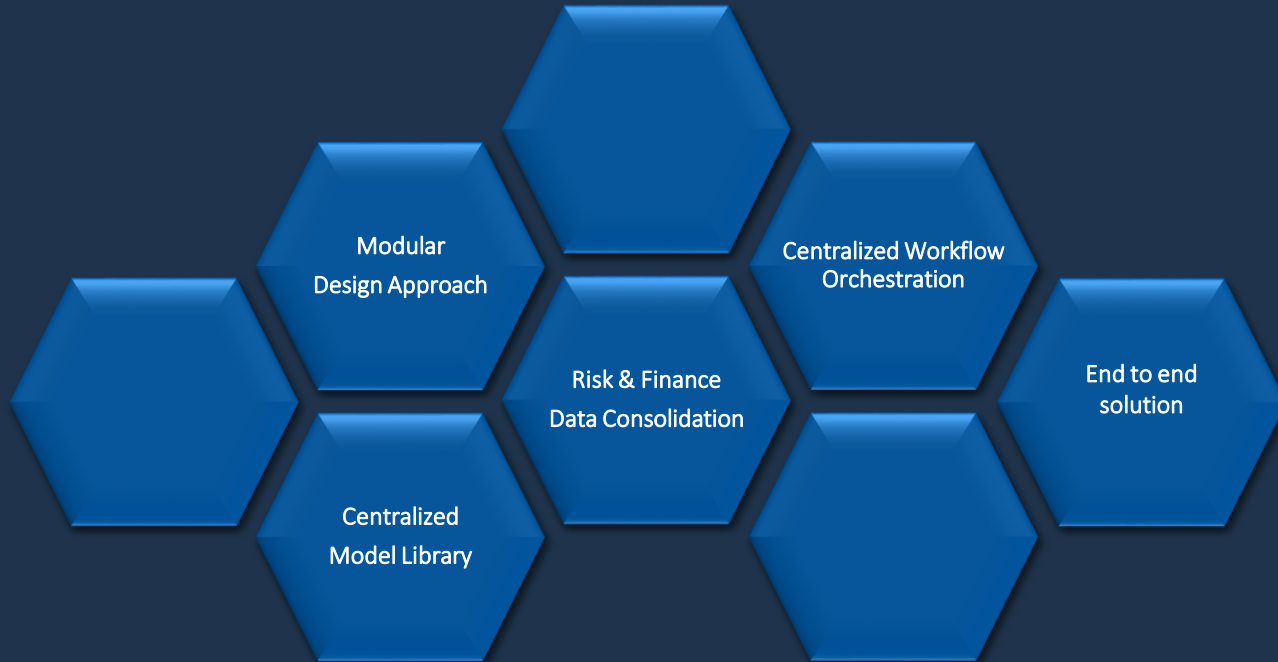
Implementation Challenges

- Don't underestimate the task ahead
- Resist the silo of focus on loss modeling only or financial reporting only
- Start simple but flexible (it will complicate)
- Interpretations are subject to change and will
- Avoid developing in silos
- Architect for efficiency
- Develop multi-purpose solutions



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addressing the challenges





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