IFRS9-2

IFRS9 VS BÂLE : FIN DE PROJET ET NOUVELLES INCERTITUDES ?

CHOIX DE MISE EN ŒUVRE : ANALYSE ET CRITÈRES DE CHOIX

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AGENDA

1. **General overview**
2. **Modelisation**
3. **Local calculation ("M" scenario)**
4. **Central monitoring and governance:**
   - ✓ Enslavement to SG Group models referential
   - ✓ S2 homogeneous treatment for non-retail counterparts
5. **SG Group detailed report for regulatory monitoring purposes**
6. **Processes and Change management**

GENERAL OVERVIEW

MESSAGE

Accounting IFRS9-2 requirements differ from regulatory Basel requirements. Still, cartography of portfolios must be consistent between both processes.

	Basel	IFRS 9 phase 2	Implementation impact
Perimeter	➢ Prudential	➢ Consolidated entities	➢ Extension of perimeter
Delay of production	➢ 15 days	➢ 3 days	➢ Local production
Responsibility	➢ Central production at SG (even if legal entities remain responsible for the data quality of outstanding and RWA output)	➢ Local production to comply with IFRS local accounting when need be	➢ Use of a mutualised calculator in major entities ➢ Enslavement to SG Group referentials for potential entities with own calculator
Reporting	➢ Breakdown of outstanding and RWA	➢ Breakdown of outstanding and tracking of stages changes for Provisions since January 1st	➢ More granular report at corporate level and use of big data

IMPLEMENTATION CHALLENGES DUE TO DIFFERENCES BETWEEN REGULATORY AND ECL MODELS

MESSAGE

Consistency with Basel is required even though full alignment is not possible, resulting into high complexity: specific internal ECL models must therefore be designed internally on top of regulatory models.

	Basel	IFRS 9 phase 2
Time Horizon	12-month horizon Expected Loss	Lifetime ECL required for stage 2 exposure
ECL parameters	Parameters (PD, EAD, LGD) set by internal models in IRB approach. Otherwise (“Standard” approach), predetermined by regulator	No parameters predetermined by IASB
“Point in Time” vs “Through the Cycle”	Internal Models use ‘through-the cycle” approach neutralising economic fluctuations	“Point in Time”: use all information about past events, current and forecast economic conditions at each reporting date
Forward looking	No forward looking	ECL must reflect unbiased and range of possible economic scenarios (probability-weighted)
Prudence vs Neutrality	Models include adjustment for prudence (e.g. floored LGDs)	No adjustment for prudence allowed: an unbiased approach is required

	SG internal approach for IFRS 9 Phase 2 ECL models
2 Methods for ECL calculation	➢ **Reference (sophisticated) method for 80 % of Group perimeter**: entities using IRB portfolios or with sufficient detailed data history to support advanced statistics (Basel models adapted for IFRS 9 phase 2) ➢ Simplified method for other entities (20 % of perimeter) : backed by loss history where available
Forward looking approach	➢ Step 1: Model linking ECL of sub portfolios to relevant **macro economic drivers** ➢ Step 2: **Probability-weighted ECL amount based on 3 macro economic scenarios** (base case, stress case, optimistic: the 3-year scenarios that are used for financial planning, stress and optimistic scenarios being based on ”normative” economic shocks).

MESSAGE

Accounting time constraints require a locally monitored calculation process

The accounting time constraint: a challenge for provisionning process

- In order to match with regulatory requirement to have a granular and fresh data quality, SG decided to **qualify and quantify its ECL on "M" outstanding**
- **In order to match with accounting delay, it was therefore excluded to have the time to:**
  - Take the end-of-the-month outstanding snapshot,
  - Qualify them with all data necessary for calculation,
  - Normalize the information according to SG group report (including referential),
  - Calculate the ECL
  - Back this information to the local entities
  - Account locally for the provisions

The solution designed by SG to answer the challenge

- **Capitalization on the RWA SG Group calculator in order to guarantee a consistent treatment with IRBA Expected Loss in some details of calculation (guarantees and collateral dispatching)**
- **Design of a "service mode" available to entities for use of the SG Group calculator on their own data,** with a necessity to work in a "users club" way
- The SG Group calculator requires some technical set-up that may not be available in all our entities. **Under some conditions, local calculators are authorized**

MESSAGE

IFRS9-2 reinforces the need for a strong risk governance at Group level

An enhanced Models Governance

- Method and models determination must follow the **"SG Group methodological framework"**
- Method, models and parameters (PD, LGD, elements of forward-looking) are updated according to a **governance supervised by SG Group RISQ management and consistent with regulatory models**
- Method, models and parameters authorized for production implementation according to the governance here-above are stored in a **SG Group Central Model Referential that must be used by all calculators of SG Group**

Credit Risk indicators ensuring S2 perimeter consistency accross the Group

- Credit risk indicators must be determined according to the "SG Group methodological framework". **The same credit risk indicators used for regulatory purposes are still used for IFRS9-2:**
  - Internal rating for non-retail
  - Class of risk for retail
- **Thresholds to determine "significant credit risk deterioration"** follow a governance supervised by SG Group RISQ management
- For non-retail counterparties, ratings and thresholds by perimeter are stored in a **SG Group Rating Referential that must be used by all calculators of SG Group**

SG GROUP DETAILED REPORT FOR REGULATORY PURPOSES

MESSAGE

The requirement of new type of reports accelerated the roll out of more granular datawarehousing of retail at Group level ("contract level")

	Illustration FINREP report	Opening balance Impairment or	reversal of impairment (net) with transfer Impairment or	reversal of impairment (net) without ... Changes due	to update in the institution's ...	Changes due to origination and acquisition	Changes due to repayments and disposals	Write-off through decrease in allowance	Other adjustments	Closing Balance Recoveries of	previously written-off amounts recorded directly to the	Amounts partially written-off directly to the statement of	Amounts totally written-off directly to the statement of
010	**Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)**	1	2	3	4	5	6	7	8	9	10	11	12
020	Debt securities												
030	*Central banks*												
040	*General governments*												
050	*Credit institutions*												
060	*Other financial corporations*												
070	*Non-financial corporations*												
080	Loans and advances												
090	*Central banks*												
100	*General governments*												
110	*Credit institutions*												
120	*Other financial corporations*												
130	*Non-financial corporations*												
140	*Households*												
160	of which: collectively assessed allowances	*En attente de définition de la part des régulateurs. Par défaut on peut considérer que pour les Stages 1 et 2 les mouvements sont « collectively assessed » et le Stage 3 « individually assessed » sauf le retail «Harmonisation » qui est collectively assessed*											
170	of which: individually assessed allowances												
180	**Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)**												
	Ventilation similaire à celle pour le Stage 1												
350	**Allowances for credit-impaired debt instruments (Stage 3)**												
	Ventilation similaire à celle pour le Stage 1												
530	**Total on-balance sheet assets**	-	-	-	-	-	-	-	-	-			-
560	Commitments and financial guarantees given (Stage 1)	-	-	-	-	-	-	-	-	-			-
570	Commitments and financial guarantees given (Stage 2)	-	-	-	-	-	-	-	-	-			-
580	Commitments and financial guarantees given (Stage 3)	-	-	-	-	-	-	-	-	-			-
590	**Total**												

MESSAGE

Significant impact on both Finance and Risk functions and Business lines including the need for closer collaboration

- **Central teams** (Governance, Referentials, Calculator, SG group financial and regulatory reporting) must work closely with **local teams** (feeding of Referentials, ECL production and accounting and SG corporate reporting)

- **Risk teams** must work closely with **Finance teams**

ECL calculation result certification and NCR banking explanation

Accounting Chief Officer	Consolidated perimeter definition				
Financial Chief Officer		Adjustment & outstanding certification	Production of provisions (ECL calculation)	A Estimated provisions / provisions reconciliation A	
Risk chief Officer				Analysis ** & banking explanation of provisions A	ECL calculation result & provisions certification

** *Parallel step with* Estimated provisions / provisions reconciliation