TOPICS:
IFRS9

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📖 **European Banking Authority**

IFRS 9 Implementation By Eu Institutions - Monitoring Report

EBA Notes Significant Efforts in IFRS 9 Implementation by EU Institutions but Cautions on Some of the Observed Accounting Practices, Especially in the Context of the COVID-19 Pandemic

- **Staging assessment - Limited changes observed** in banks' significant increase in credit risk (SICR) approaches during the first half of 2020;
- **Expected credit loss (ECL) models - COVID-19 pushed IFRS 9 models outside their boundaries** thereby increasing the use of overlays leading to more divergence in terms of materiality of the impact in the final ECL amount.
- **IFRS 9 PD variability and robustness - The IFRS 9 12M PD estimates and variability generally increased during the pandemic**, as a result of the incorporation of the forward looking information and their point in time nature, while the IRB PDs remained comparatively relatively stable.
- **Incorporation of forward-looking information** - The impact on **ECL** stemming from the incorporation of forward looking information **increased during the pandemic and varied significantly across institutions**.
- **Classification and measurement - A wide array of practices was observed** in the context of the IFRS 9 business model assessment. Further scrutiny and guidance is deemed necessary.
- **Recognition and derecognition - Some discrepancies have been observed** in the derecognition of financial assets and/or recognition of accrued interest. These are two of the topics that would deserve further attention.
- **Application of IFRS 9 transitional arrangements and other prudential observations** - Only one third of institutions made use of the IFRS 9 transitional arrangements under the CRR: **few institutions decided to make use of the CRR quick-fix introduced in June 2020 as a response to the Covid-19 pandemic.**
- Findings from the IFRS 9 monitoring report will be used by the EBA when reacting to the IASB post implementation review of IFRS 9.

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