



# In the Spotlight

## Top 10 Questions that Audit Committees and CFOs of Banks should be asking in FY20

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### Assessing the impact of COVID-19 on IFRS 9 expected credit loss models

#### At a glance

Coronavirus (COVID-19) has had a significant impact on credit conditions and levels of uncertainty. As a result, banks' processes for estimating IFRS 9 expected credit losses (ECLs) have had to adapt. In this publication, we provide the top 10 questions about ECLs that we believe audit committees and CFOs of banks should be asking now.

1. How will we ensure that our measurement of ECLs complies with the requirements of IFRS 9? (see [In the Spotlight - COVID-19: Top 5 IFRS Accounting Issues for Banks](#))
2. What are the key performance indicators (KPIs) used to evaluate ECLs, how will we assess their continued appropriateness in the current environment, and how do they (and underlying assumptions) compare to peers? (see [In the Spotlight: Understanding expected credit losses – what metrics might help?](#))
3. How does our ECL compare to our annual internal budget for credit losses; and, given that IFRS 9 is already forward-looking, can any significant differences be explained?
4. What portion of our ECL is driven by overlay rather than by models using detailed data, what has been done to ensure that the level is appropriate, and what is our plan to reduce it over time (for example, through data and model development / redevelopment)? (see [In the Spotlight – Post-model adjustments for expected credit losses during COVID-19](#))
5. How have we compared ECLs with current and past capital metrics (for example, losses in stressed scenarios) to understand potential inconsistencies and capital impacts over time?

6. What temporary or permanent changes to our ECL processes, governance and internal controls are being made as a result of COVID-19?
7. To what extent will third parties be involved in determining or assessing the ECL (for example, external model validation, third-party data, and models), and what internal oversight is already, or will be, in place?
8. What information about ECLs will we disclose, and is it in line with our peers' disclosures and regulatory expectations?
9. What questions about IFRS 9 have investors, analysts and regulators asked in the past, what new questions do we anticipate them having, and what are we doing proactively to address them?
10. What management information is being produced internally and how is it communicated to ensure it is used in a consistent manner throughout the organisation (for example, using tools such as Tableau, Microsoft Power BI or R Shiny)?

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