



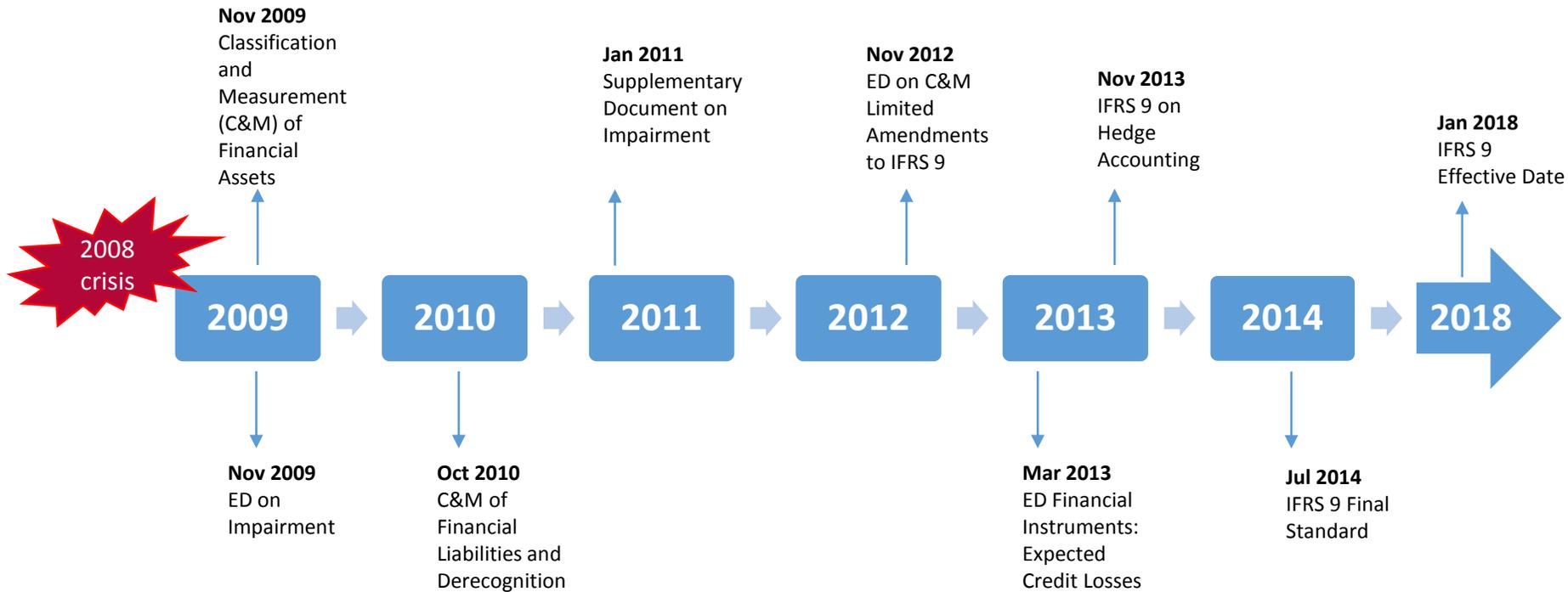
IFRS 9 - Preliminary Plan

Safest road to compliance

BCC recommended implementation approach

Presented by Antoine Wakim

Timeline - IFRS 9 enhancement project



Milestones – IFRS 9

Proposed approach will allow Lebanese banks to comply with 2 deadlines :

- 31/12/15: action plan
- 1/1/18: IFRS9 Statement of Financial Position

Banking Control Commission - Bank of Lebanon

Beirut 13th, August, 2015

Memorandum No. 18/2015

To Banks and Financial Institutions Operating in Lebanon and Their Control Commissioners

Subject: Implementation of International Financial Reporting Standard (IFRS 9).

Following the release of the final version of the International Financial Reporting Standard 9 (IFRS 9), "Financial Instruments" in July 2014, including:

- Classification and Measurement, Impairment, ~~Hedge Accounting~~,

And given the implementation date of this standard is 1/1/2018,

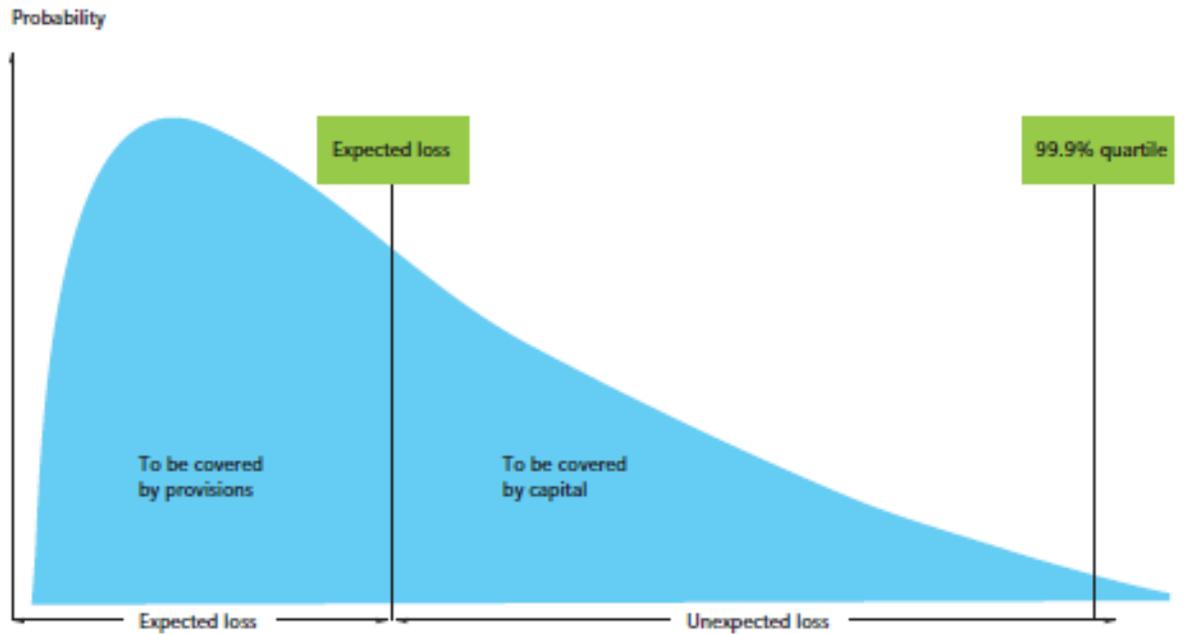
All banks and financial institutions operating in Lebanon are demanded to start preparations to implement this standard in coordination with authorized control commissioners, in compliance with the following:

1. Set up an internal work team to implement this standard. The team should at least comprise officials from the Financial Control, Risk Management, Credit and IT departments by no later than 30/9/2015. The Banking Control Commission shall be provided with the ~~working team~~ members' names and current positions at the bank or financial institution as well as the direct phone number, and the project manager email.
- 2.
3. Develop a detailed action plan to implement this standard at the group level and provide the Banking Control Commission with this plan by no later than 31/12/2015. The action plan must suggest a proposal to measure the ~~Expected Credit Loss~~ of assets and liabilities pertaining to this standard within a 12-Month Expected Credit Loss with regard to Stage 1 and Lifetime Expected Credit Loss with regard to Stages 2 & 3 as per the standard requirements.

BASEL vs. IFRS 9

Challenges in implementing new impairment regulations

Title	Basel	IFRS
Objective	Determine capital charges to cover unexpected future losses (and unprovisioned expected losses)	Determine expected losses adequately reflecting current and forward looking market conditions



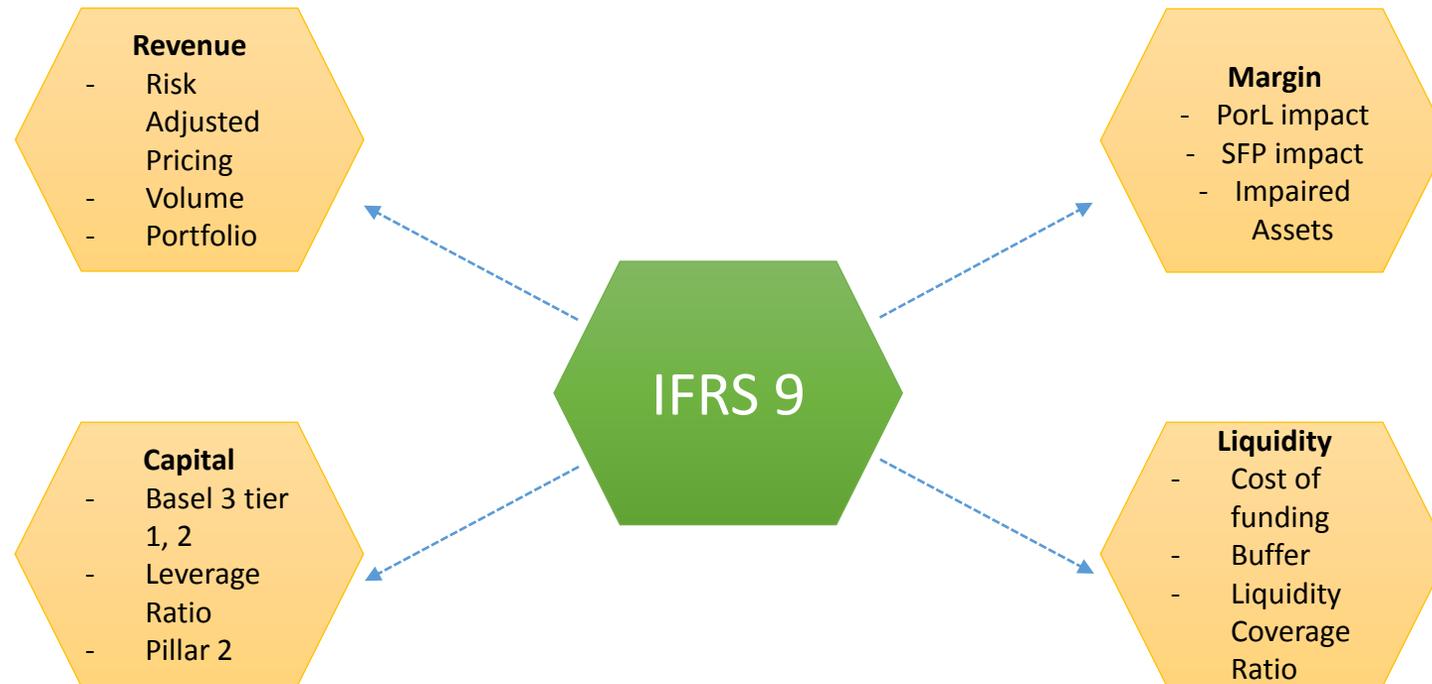
IFRS 9 Plan

Measurement

Impairment

Hedging

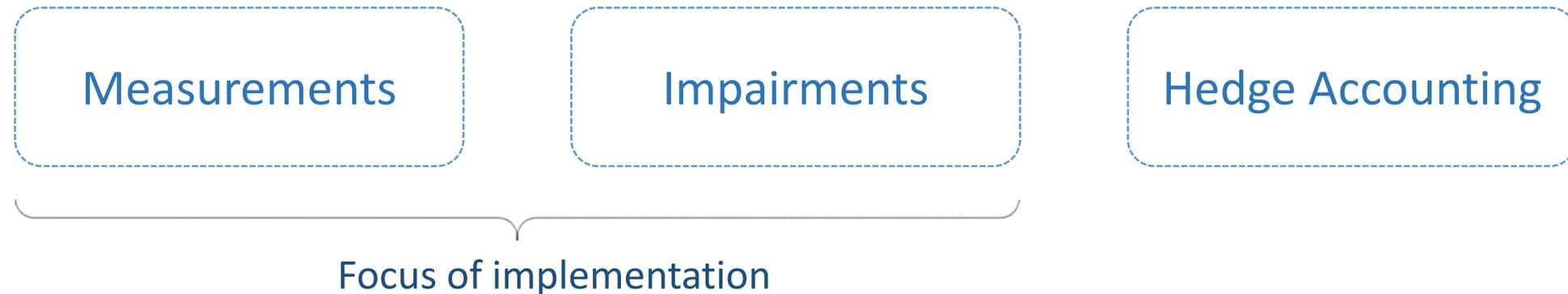
IFRS 9 implementation project – Wide impact



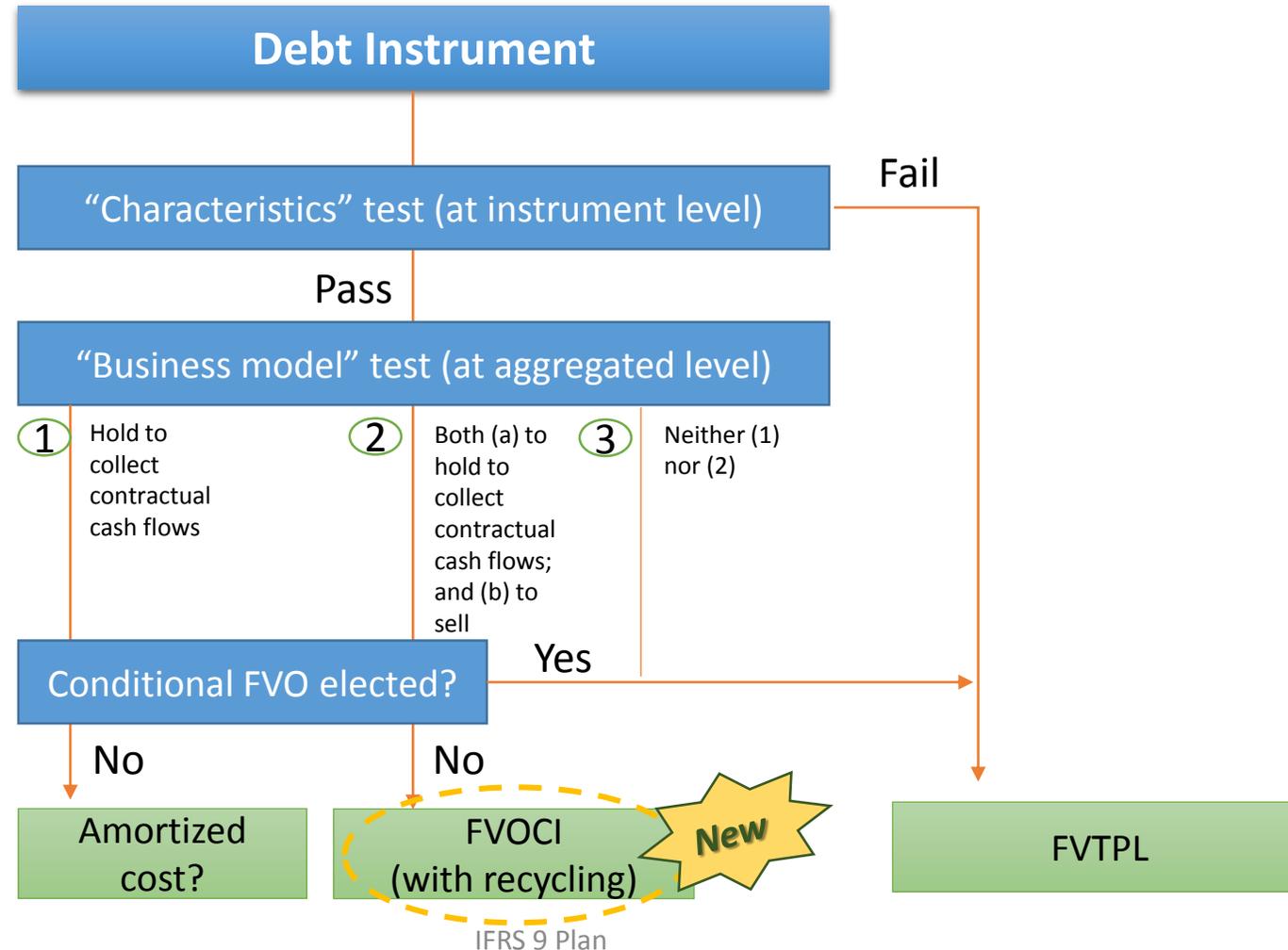
End-to-end process with the system to Analyze, Execute and Monitor IFRS 9 impacts

IFRS 9 implementation project – 3 domains to be considered

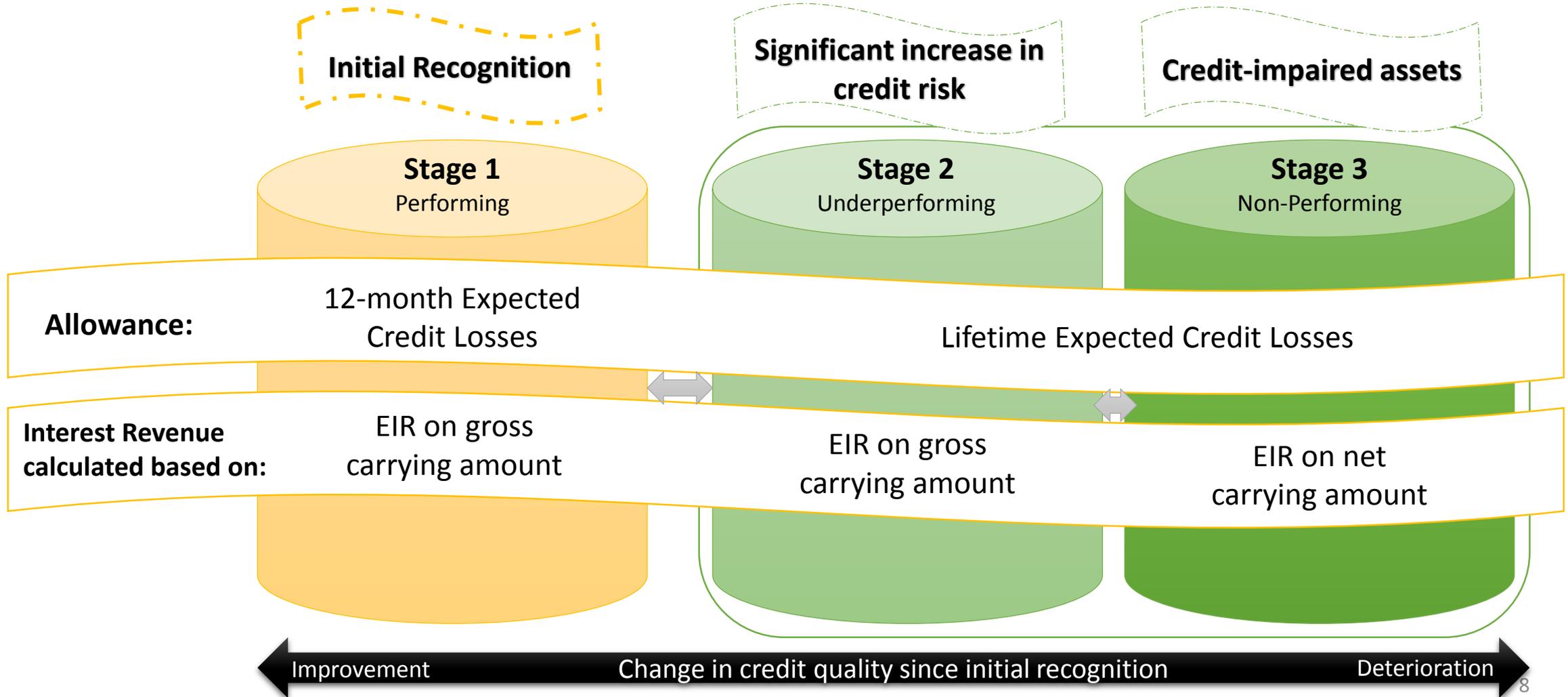
- 3 domains related to financial instruments
- For Lebanese banks the priority is given to Measurements and Impairments blocks
- Hedge accounting will be treated on case by case basis



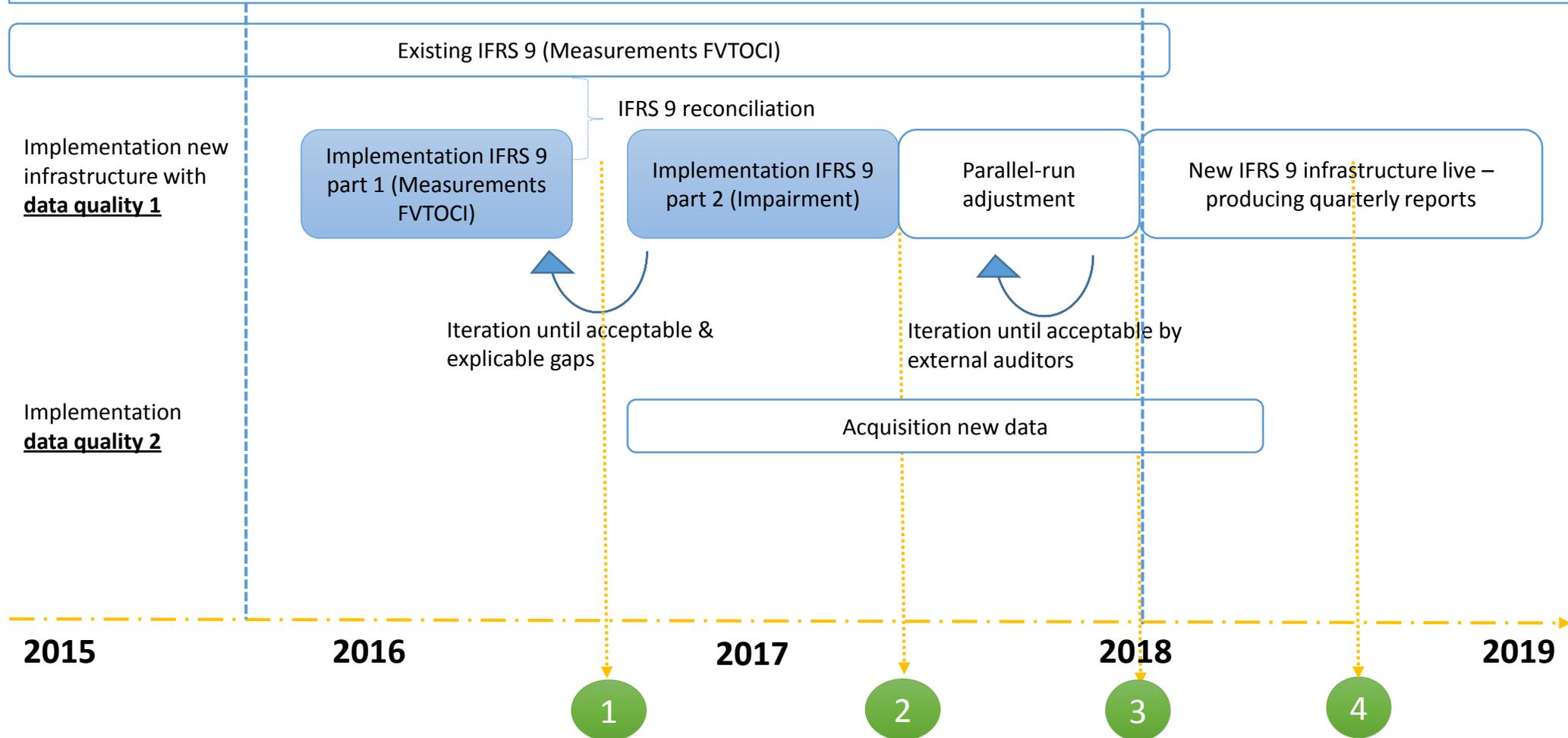
Classification and measurement



Expected Loss Model – General impairment model

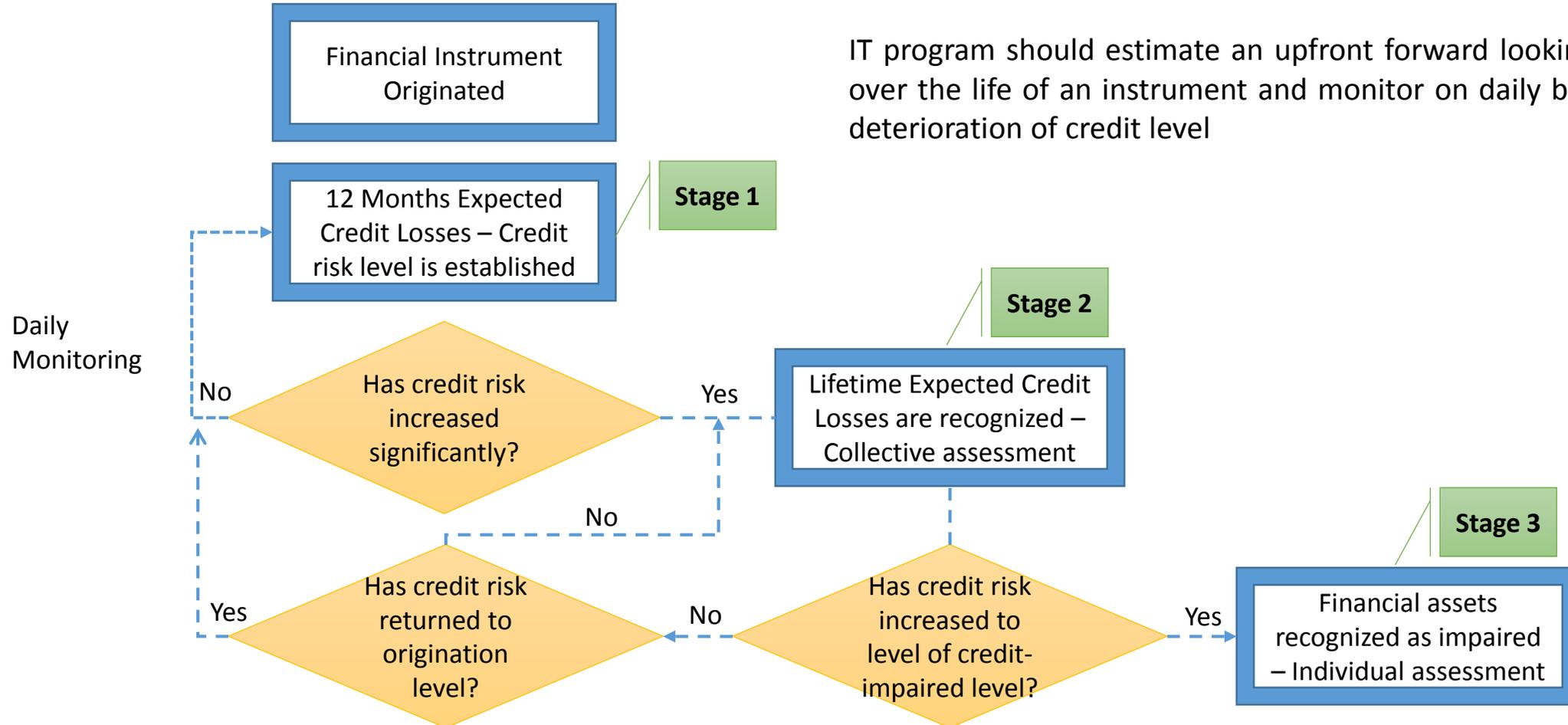


IFRS 9 Implementation approach



General approach based on “Credit risk increase since initial recognition”

IT program should estimate an upfront forward looking expected loss over the life of an instrument and monitor on daily basis the possible deterioration of credit level



Banks are allowed to assess the expected credit losses using several methods. However some challenges and threats may arise at implementation:

- ❑ How to model lifetime PD, LGD and EAD? How will the Model be implemented on the Lebanese Government level in local and foreign currency?
- ❑ Which IT programs may provide and capture additional information?
- ❑ How will banks rely on these IT programs that are not previously tested or implemented?
- ❑ How reliable is the quality of the current data? How will MIS prepare data for robust model calculations?
- ❑ Is the bank's Expected Loss Model acceptable for auditors and regulators?
- ❑ How will the Expected Loss Model affect the pricing in the future?

