Autorité des marchés financiers

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Guideline on the management of expected credit losses

Table of Contents

1. PRUDENTIAL EXPECTATIONS REGARDING CREDIT RISK AND ACCOUNTING FOR EXPECTED CREDIT LOSSES UNDER THE INTERNAL RATINGS-BASED APPROACH 4

1.1 RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT 4

1.2 SOUND ECL METHODOLOGIES 5

1.2.1 Processes and systems 5
1.2.2 Allowances 5
1.2.3 ECL assessment and quantification methodology 5
1.2.4 Credit risk identification process 7
1.2.5 Allowance methodology 9

1.3 CREDIT RISK RATING AND GROUPING 10

1.3.1 Credit risk rating 10
1.3.2 Grouping based on shared credit risk characteristics 10

1.4 ADEQUACY OF THE ALLOWANCE 12

1.5 ECL MODEL VALIDATION 13

1.6 EXPERIENCED CREDIT JUDGMENT 14

1.7 COMMON DATA 15

1.8 DISCLOSURE 16

2. IMPAIRMENT OF LOAN EXPOSURES FOR STANDARDIZED FINANCIAL INSTITUTIONS 18

2.1 FORWARD-LOOKING INFORMATION 18

2.2 PAST-DUE INFORMATION 19

Introduction

This Guideline sets out the prudential expectations of the Autorité des marchés financiers (the "AMF") regarding sound and prudent management practices for credit risk associated with expected credit losses (ECL).[1]

These best practices, presented in the form of expectations, are consistent with the guidance on credit risk and accounting for ECL[2] and core principles of credit risk supervision[3] of the Basel Committee on Banking Supervision (the "BCBS").

This guideline applies to financial services cooperatives, authorized trust companies, savings companies and other authorized deposit institutions and to insurers that engage in lending activities.

The first part of the guideline sets out the expectations for financial institutions that use the Internal Ratings Based (IRB) approach ("Internal Ratings-Based Financial Institutions"). The second part addresses the expectations applicable to insurers that use the standardized approach ("Standardized Insurers").

This guidance document does not relieve institutions from their obligations with respect to current Canadian accounting standards.

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[1] The scope of this guideline is limited to those practices affecting the assessment and measurement of ECL and allowances under current Canadian accounting standards. As used in this document, the term "allowances" includes allowances on loans, and allowances or provisions on loan commitments and financial guarantee contracts.

[2] BANK FOR INTERNATIONAL SETTLEMENTS, Basel Committee on Banking Supervision, *Guidance on credit risk and accounting for expected credit losses*, December 2015.

[3] BANK FOR INTERNATIONAL SETTLEMENTS, Core Principles for Effective Banking Supervision, September 2012. Core principles *17: Credit risk* and *18: Problem assets, provisions and reserves.*

1. Prudential expectations regarding credit risk and accounting for expected credit losses under the internal ratings-based approach

1.1 Responsibilities of the board of directors and senior management[4]

> The AMF expects senior management to implement sound and prudent credit risk management practices and ensure that they are applied.

The AMF expects institutions to adopt and implement sound credit risk practices with respect to identifying, assessing, quantifying, controlling, mitigating and adequately monitoring credit risk consistent with its approved risk appetite and with sound underwriting practices.

Senior management should develop and maintain appropriate processes, which should be systematic and consistently applied. It should also establish and update a strategy as well as policies and procedures to communicate the credit risk assessment and quantification process to all relevant personnel.

The AMF believes that an effective internal control system for credit risk assessment and quantification is essential to enable senior management to fulfill its responsibilities. An effective internal control system should enable the institution to consistently determine adequate allowances in accordance with its stated policies and procedures and should include:

- measures to provide oversight of the integrity of information used and ensure that the allowances reflected in the financial institution's financial statements and the reports provided to the AMF comply with current Canadian accounting standards and the AMF's expectations regarding the management of ECL;
- credit risk assessment and quantification processes that are independent from the lending function. These processes should include, among other things:
    - an effective credit risk rating system that is consistently applied, accurately grades differing credit risk characteristics, identifies changes in credit risk on a timely basis and prompts appropriate action;
    - an effective process which ensures that all relevant and reasonable and supportable information, including forward-looking information, is appropriately considered in assessing and quantifying ECL;
    - an assessment policy that ensures ECL quantification occurs not only at the individual lending exposure level but also, when necessary, at the collective portfolio level;[5] [6]
    - clear formal communication and coordination among credit risk staff, financial reporting staff, the board, senior management and others who are involved in the credit risk assessment and quantification process for an ECL accounting framework.

[4] The roles and responsibilities assigned to the board of directors and senior management are detailed in: AUTORITÉ DES MARCHÉS FINANCIERS, Governance Guideline, April 2021.

[5] By grouping exposures based on identified shared credit risk characteristics.

[6] See sections 1.3 - Credit risk rating and grouping and 1.4 - Adequacy of the allowance.

1.2 Sound ECL methodologies

> The AMF expects a financial institution to adopt, document and adhere to sound methodologies that address policies, procedures and controls for assessing and quantifying credit risk on all lending exposures. The measurement of allowances should build upon those methodologies.

1.2.1 Processes and systems

The AMF expects a financial institution to have in place adequate processes and systems to appropriately identify, assess, quantify, control, mitigate and monitor credit risk. The financial institution should collect and analyze relevant information affecting the assessment and quantification of ECL.

Credit risk assessment and quantification should provide relevant information for senior management to make its experienced judgments about the credit risk of lending exposures and the related estimation of ECL.

The AMF expects the financial institution to leverage processes that are used to determine if, when and on what terms credit should be granted. The financial institution is also expected to monitor credit risk at all stages of the loan's life cycle and quantify allowances for both accounting and capital adequacy purposes.

1.2.2 Allowances

A financial institution's allowance methodologies should clearly document the definitions of key terms related to the assessment and quantification of ECL.[7] Where different terms, information or assumptions are used across functional areas,[8] the underlying rationale for these differences should be documented. The rationale for changes in assumptions that affect the quantification of ECL should also be documented.

1.2.3 ECL assessment and quantification methodology

Robust and sound methodologies for assessing credit risk and quantifying levels of allowances should:

- include a process enabling the institution to know the level, nature and drivers of credit risk upon initial recognition of the lending exposure;
- include criteria to consider the impact of forward-looking information, including macroeconomic factors. Whether the evaluation of credit risk is conducted on a collective or individual basis, the methodology should demonstrate that this consideration has occurred so that the recognition of ECL is not delayed. These criteria should result in the identification of factors that affect repayment, whether related to borrower incentives, willingness or ability to perform on the contractual obligations, or to lending exposure terms and conditions;[9]
- include, for collectively evaluated exposures, a description of the basis for creating portfolios of exposures with shared credit risk characteristics;

[7] For example, loss and migration rates.

[8] For example, accounting, capital adequacy and credit risk management.

[9] Such as unemployment rates or occupancy rates. This may be at the international, national, regional or local level.

- identify and document the ECL assessment and quantification methods[10] to be applied to each exposure or portfolio;
- document the reasons why the selected method is appropriate, especially if different ECL quantification methods are applied to different portfolios and types of individual exposures;[11]
- document the inputs, data and assumptions used in the allowance estimation process,[12] how the life of an exposure or portfolio is determined,[13] the time period over which historical loss experience is evaluated, and any adjustments necessary for the estimation of ECL;
- document the methods used to validate models for impairment quantification;
- include a process for evaluating significant inputs and assumptions in the ECL assessment and quantification method chosen. The AMF expects that the basis for inputs and assumptions used in the estimation process will generally be consistent from period to period. Where inputs and assumptions change, the rationale should be documented;
- identify situations that would generally lead to appropriate changes in ECL quantification methods, inputs or assumptions from period to period;[14]
- identify internal and external factors that may affect ECL estimates;[15]
- address how ECL estimates are determined.[16] A financial institution should have an unbiased view of the uncertainty and risks in its lending activities when estimating ECL;
- identify what factors are considered when establishing appropriate historical time periods over which to evaluate historical loss experience. A financial institution should maintain sufficient historical loss data (ideally over at least one full credit cycle) to provide a meaningful analysis of credit loss experience for use as a starting point when estimating the level of allowances on a collective or individual basis;
- determine the extent to which the value of collateral and other risk mitigants affects ECL;
- outline the financial institution's policies and procedures on write-offs and recoveries;
- require that analyses, estimates or reviews that are inputs or outputs from the credit risk assessment and quantification process are performed by competent and well-trained personnel and validated by personnel who are independent of

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[10] Such as a loss rate method, probability of default method or another method.

[11] An institution should be able to explain the rationale for any changes in measurement approach (e.g., a move from a loss rate method to a PD/LGD method) and the quantitative impacts of such changes.

[12] Such as historical loss rates, PD/LGD estimates and economic forecasts.

[13] Including how expected prepayments have been considered.

[14] For example, the institution may state that a loan that had been previously evaluated on a collective basis using a PD/LGD method may be removed and evaluated individually using the discounted cash flow method upon receipt of new, borrower-specific information such as the loss of employment.

[15] Such as underwriting standards applied to a lending exposure at origination and changes in industry, geographical, economic and political factors.

[16] Such as historical loss rates or migration analysis as a starting point, adjusted for information on current conditions, forward-looking information and macroeconomic factors.

the institution's lending activities. These inputs and outputs should be properly recorded and well documented and the documentation should include clear explanations supporting the analyses, estimates and reviews;

- ensure that ECL estimates appropriately incorporate forward-looking information, including macroeconomic factors, that has not already been factored into allowances measured on an individual exposure basis. A financial institution should use its experienced credit judgment, in particular to consider broad trends in the entire lending portfolio and changes in the financial institution's business model; and
- require a process to assess the overall adequacy of allowances.

1.2.4 Credit risk identification process

A financial institution's credit risk identification process should ensure that factors that impact changes in credit risk and estimates of ECL are properly identified on a regular basis. Also, consideration of credit risk inherent in new products and activities should be a key part of the risk identification process and the assessment and quantification of ECL.

With respect to factors related to the type of borrower, the borrower's capacity and capital, the term of the loan and the value of assets pledged as collateral together with other credit risk mitigants that may affect the full collectability of cash flows, the financial institution could, depending on the type of exposure, consider:

- monitoring of its lending policies and procedures, including underwriting standards and lending terms;
- a borrower's sources of recurring income available to meet the scheduled payments;
- a borrower's ability to generate a sufficient cash flow stream over the term of the commitment;
- the borrower's overall leverage level and expectations of changes to leverage;
- unencumbered assets the borrower may pledge as collateral in the market or bilaterally in order to raise funds and expectations of changes to the value of those assets;
- potential one-off events and recurring behaviour that may affect the borrower's ability to meet contractual obligations; and
- timely evaluations of collateral value[17] and consideration of factors that may impact the future value of collateral.

Where they have the potential to affect the financial institution's ability to recover amounts due, factors relating to the financial institution's business model and macroeconomic conditions should be considered. These factors include:

- competition and legal and regulatory requirements;
- trends in the financial institution's overall volume of credit;

[17] Bearing in mind that collateral values directly affect estimates of loss-given-default.

- the overall credit risk profile of the financial institution's lending exposures and expectations of changes thereto;
- credit concentrations to borrowers or by product type, segment or geographical market;
- expectations on collection, charge-off and recovery practices;
- the quality of the financial institution's credit risk review system; and
- other factors that may impact ECL such as expectations of changes in unemployment rates, gross domestic product, benchmark interest rates, inflation, liquidity conditions or technology.

The AMF expects that methodology will consider different potential scenarios and will not rely purely on subjective, biased or overly optimistic considerations. A financial institution should develop and document its process to generate relevant scenarios to be used in the estimation of ECL. In particular:

- the financial institution should demonstrate and document how ECL estimates would alter with changes in scenarios, including changes to relevant external conditions that may impact ECL estimates or components of the ECL calculation (such as probability of default and loss-given-default parameters);
- the financial institution should have a documented process for determining the time horizon of the scenarios and, if relevant, how ECL is estimated for exposures whose lives exceed the period covered by the economic forecast(s) used;
- scenarios may be internally developed or vendor-defined:
    - for internally developed scenarios, a financial institution should have a variety of experts, such as risk management professionals, economists, operational managers and senior management, assist in the selection of scenarios that are relevant to the financial institution's credit risk exposure profile;
    - for vendor-defined scenarios, a financial institution should ensure that the vendor tailors the scenarios to reflect the financial institution's business and credit risk exposure profile;
- backtesting should be performed to verify that the most relevant economic factors that affect collectability and credit risk are being considered and incorporated into ECL estimates; and
- where market indicators of future performance (such as credit default swap spreads) are available, senior management may consider them to be a valid benchmark against which to check the consistency of its own judgments.

The AMF expects a financial institution to consider all information that is relevant to the product, borrower, business model or economic and regulatory environment when developing ECL estimates. It should consider the experience and information from similar exercises.

Forward-looking information, including economic forecasts and related credit risk factors used for ECL estimates, should be consistent with inputs to other relevant estimates within the financial statements, budgets, strategic and capital plans, and other information used in managing and reporting on the financial institution.

1.2.5 Allowance methodology

A financial institution's allowance methodology should build upon the accounting framework for ECL assessment and quantification.

It should include the following criteria:

- Restructurings/modifications can take many forms, including a renewal or extension of terms, other concessions to the borrower, or a modification of the terms with or without concessions to the borrower;
- It should deliver a robust assessment and quantification of ECL such that the allowance level continues to reflect the collectability of the substance of the restructured exposure;
- It should also call upon lending staff to promptly notify the financial institution's accounting function when exposures are restructured or modified to ensure appropriate accounting for the change. For more complex restructurings and modifications, regular communication between this line of business and the accounting function is warranted.
- The methodology should enable appropriate identification and accounting for purchased or originated credit-impaired lending. The cash flow estimates for these lending exposures should be reviewed each reporting period and updated as necessary. Such updates should be properly supported and documented.

1.3 Credit risk rating and grouping

The AMF expects a financial institution to have a process in place to appropriately group lending exposures on the basis of shared credit risk characteristics.

1.3.1 Credit risk rating

The AMF believes that an effective credit risk rating process should capture the varying level, nature and components of credit risk at every stage of the loan's life cycle. An effective rating system will ensure that all lending exposures are properly monitored and that ECL allowances are accurately measured.

The credit risk rating process should include an independent review function. While front-line lending staff may have initial responsibility for assigning credit risk grades and ongoing responsibility for updating the credit grade to which an exposure is assigned, the AMF expects this to be subject to the review of an independent review function.

The credit risk grade a financial institution assigns upon initial recognition of a lending exposure may be based on a number of criteria, including product type, terms and conditions, collateral type and amount, borrower characteristics and geography or a combination thereof. Existing credit risk grades assigned may subsequently change on either a portfolio or an individual basis.[18]

The credit risk rating system should capture all lending exposures to allow for an appropriate differentiation of credit risk and grouping of lending exposures within the credit risk rating system, reflect the risk of individual exposures and, when aggregated across all exposures, the level of credit risk in the portfolio as a whole. In this context, an effective credit risk rating system will allow a financial institution to identify both migration of credit risk and changes in credit risk grade.

In describing the elements of its credit risk rating system, a financial institution should clearly define each credit risk grade and designate the staff responsible for the design, implementation, operation and performance of the system as well as those responsible for periodic testing and validation.

Credit grades should be reviewed whenever relevant new information is received or a financial institution's expectation of credit risk has changed. Credit risk grades assigned should receive a periodic formal review (at least annually) to reasonably ensure that those grades are appropriate and up to date. Credit risk grades for individually assessed lending exposures that are higher-risk or credit-impaired should be reviewed more frequently than annually. ECL estimates should be updated on a timely basis to reflect changes in credit risk grades for either groups of exposures or individual exposures.

1.3.2 Grouping based on shared credit risk characteristics

Groups should be sufficiently granular to allow banks to group exposures into portfolios with shared credit risk characteristics so that the institution can reasonably

[18] Such as changes in industry outlook, business growth rates, consumer sentiment and changes in economic forecasts (interest rates, unemployment rates, commodity prices, etc.).

assess changes in credit risk and thus the impact on the estimate of ECL. A financial institution's method for grouping exposures to assess credit risk[19] should be documented and subject to review and appropriate approval.

Lending exposures should be grouped according to shared credit risk characteristics so that changes in credit risk respond to the impact of changes in the current environment, forward-looking information and macroeconomic factors. The basis of grouping should be reviewed to ensure that exposures within the group remain homogeneous in terms of their response to credit risk drivers.[20]

Exposures must not be grouped in such a way that an increase in the credit risk of particular exposures is masked by the performance of the group as a whole.

A financial institution should have in place a robust process to ensure appropriate initial grouping of their lending exposures. If relevant new information is received or a financial institution's changed expectations of credit risk suggest that a permanent adjustment is warranted, the AMF expects the financial institution to re-evaluate and re-segment the grouping of exposures.

[19] Such as by product type, industry/market segment or geographical location.

[20] Grouping implemented initially based on shared credit risk characteristics will not necessarily be appropriate subsequently, given that the relevant characteristics and their impact on the level of credit risk for the group may change over time.

1.4 Adequacy of the allowance

The AMF expects a financial institution's aggregate amount of allowances, regardless of whether allowance components are determined on a collective or an individual basis, to be adequate and consistent with current Canadian accounting standards.

A financial institution should implement sound and robust credit risk methodologies with the objective that the overall balance of the allowance for ECL is developed in accordance with current Canadian accounting standards and adequately reflects ECL within that framework.

A robust assessment of allowances takes into account relevant factors and expectations at the reporting date that may affect the collectability of remaining cash flows over the life of a group of lending exposures or a single lending exposure.

Depending on its ability to incorporate forward-looking information into the ECL estimate, a financial institution may use individual or collective assessment approaches. The ECL estimation technique used should be the most appropriate in the particular circumstances, and typically should be aligned with how the institution manages its credit risk exposure.[21]

The use of individual versus collective estimation techniques should not result in materially different allowance measurements. Regardless of the estimation technique used, a financial institution should ensure this does not result in delayed recognition of ECL.

When a financial institution does use the individual estimation technique, the ECL estimate should always incorporate the expected impact of all reasonable and supportable forward-looking information, including macroeconomic factors, that affects collectability and credit risk. When an individual estimation technique is used, the financial institution's documentation should clearly demonstrate how forward-looking information, including macroeconomic factors, has been reflected in the individual ECL assessment.

In instances where a financial institution's individual assessments of exposures do not adequately consider forward-looking information, it would be appropriate to group lending exposures with shared credit risk characteristics to estimate the impact of forward-looking information, including macroeconomic factors.

This process allows identification of relationships between forward-looking information and ECL estimates that may not be apparent at the individual exposure level.

[21] For example, collective assessment is often used for large groups of homogeneous lending exposures with shared credit risk characteristics, such as retail portfolios. Individual ECL assessments are often conducted for significant exposures, or where credit risks have been identified at the loan level, such as watch list and past-due loans.

1.5 ECL model validation

The AMF expects a financial institution to have policies and procedures in place to appropriately validate the models it uses to assess and quantify ECL.

ECL assessment and quantification may involve models and assumption-based estimates for risk identification and quantification.

Models may be used in various aspects of the ECL assessment and quantification process at both the individual transaction and overall portfolio levels. They may also be used in credit grading, credit risk identification, quantification of ECL allowances for accounting purposes, stress testing and capital allocation.

ECL assessment and quantification models should consider the impact of changes to borrower and credit risk-related variables, such as changes in:

- PDs;
- LGDs;
- Exposure amounts;
- Collateral values;
- Migration of default probabilities;
- Internal borrower credit risk grades based on historical, current and forward-looking information; and
- Macroeconomic factors.

1.6 Experienced credit judgment

The AMF expects a financial institution to use its experienced credit judgment, especially in the consideration of reasonable forward-looking information, in assessing and quantifying ECL.

The institution should have the necessary tools to ensure a robust estimate and timely recognition of ECL.

Information on historical loss experience or the impact of current conditions may not fully reflect the credit risk in lending exposures.

In that context, a financial institution should use its experienced credit judgment to incorporate the expected impact of all reasonable and supportable forward-looking information, including macroeconomic factors, on its estimate of ECL. A financial institution's use of its experienced credit judgment should be documented in its credit risk policy and subject to appropriate oversight.

Estimates of the ECL amount should reflect the financial institution's experienced credit judgment and consider a wide range of possible outcomes.

To assess whether a loan should move to a lifetime expected credit loss (LEL), the change in the risk of a default occurring over the expected life of the loan must be considered.

Historical information provides a useful basis for the identification of trends and correlations needed to identify the credit risk drivers for lending exposures. However, ECL estimates should not ignore the impact of forward-looking events and conditions on those drivers. The estimate should reflect the expected future cash shortfalls resulting from such impact.

Macroeconomic forecasts and other relevant information should be applied consistently across portfolios. When developing ECL estimates, a financial institution should apply its experienced credit judgment to consider its point in the credit cycle. This assessment may vary depending on the geographical data.

Additionally, the AMF believes that financial institutions are increasingly considering a wide range of information, including that of a forward-looking nature, for risk management and capital adequacy purposes. The AMF expects financial institutions to consider information derived from the different stages in the credit risk management process in developing their ECL estimates.

1.7 Common data

The AMF expects a financial institution to have a sound credit risk assessment and quantification process that provides it with a common basis for systems, tools and data.

There is commonality in the systems, tools and data used to assess credit risk, quantify ECL for accounting purposes and determine expected losses for capital adequacy purposes.

The use of common processes, systems, tools and data strengthens, to the maximum extent possible, the consistency of the resulting estimates and minimizes disincentives to following sound credit risk practices for all purposes.

A financial institution's credit risk practices should meet fundamental requirements and procedures, including having the appropriate tools to identify and assess credit risk. These fundamental requirements are equally necessary for assessing credit risk and fairly representing the financial institution's financial position for both accounting and capital adequacy purposes. These common processes are closely interrelated, which strengthens the reliability and consistency of resulting ECL estimates. These processes also increase transparency and provide incentives to follow sound credit risk practices.

A financial institution's credit risk monitoring system should be designed to include all lending exposures when assessing the impact of changes in credit risk. The system should include not only lending exposures that may have experienced significant increases in credit risk, have incurred losses or are otherwise credit-impaired.

A financial institution should periodically review its credit risk practices to ensure that relevant data available throughout a financial institution are captured and that systems are updated as the institution's underwriting or business practices change or evolve over time.

The AMF expects feedback processes to be established to ensure that information on estimates of ECL and changes in the credit risk is shared among credit risk experts, accounting and regulatory reporting staff and, in particular, with loan underwriting personnel.

Common processes, systems, tools and data include credit risk rating systems, estimated PDs (subject to appropriate adjustments), past-due status, loan-to-value ratios, historical loss rates, product type, amortization schedule, down payment requirements, market segment, geographical location, vintage, and collateral type.

1.8 Disclosure

The AMF expects a financial institution's public disclosures to promote transparency and comparability by providing timely, relevant and decision-useful information.

The objective of public disclosures is to provide decision-useful information, on a financial institution's financial position, performance and changes therein, to a wide range of users in a clear and understandable manner. The AMF expects financial institutions to continue to improve their disclosure with the aim of providing information that is relevant and comparable information so that interested parties can make timely, informed decisions.

Financial and credit risk management disclosures should be made in accordance with current Canadian accounting standards. Accordingly, it is important that financial institutions consider the disclosures needed to fairly depict an institution's exposure to credit risk, including its ECL estimates, and to provide relevant information on an institution's underwriting practices.

Senior management should apply judgment to determine the appropriate level of aggregation and disaggregation of data disclosed, such that the financial institution's disclosures continue to meet current accounting and regulatory requirements. Senior management should also provide insights into an entity's exposure to credit risk for interested parties to perform relevant peer group comparisons.

The quantitative and qualitative disclosures should clearly communicate to interested parties the main assumptions/inputs used to develop ECL estimates.

Additionally, the AMF expects disclosures to highlight policies and definitions that are integral to the estimation of ECL,[22] factors that cause changes in ECL estimates, and the manner in which management's experienced credit judgment has been incorporated. Disclosure of significant policies should be decision-useful and should describe, in the specific context of the financial institution, how those policies have been implemented.

The move to an ECL model requires that forward-looking information, including macroeconomic factors, be incorporated into ECL estimates, in accordance with the existing accounting framework. The AMF expects the financial institution to provide qualitative disclosures on how this information has been incorporated into the estimation process, particularly when the assessment is carried out on an individual basis.

A financial institution's decisions regarding the basis for grouping lending exposures will normally reflect a combination of factors. The AMF expects disclosures in this area to communicate how senior management satisfies itself that lending exposures are appropriately grouped, such that these groups continue to share credit risk characteristics.

[22] Such as an institution's basis for grouping lending exposures into portfolios with shared credit risk characteristics and its definition of default, guided by the definition used for regulatory purposes - See AUTORITÉ DES MARCHÉS FINANCIERS, Capital Adequacy Guideline, February 2024 (in French only).

To improve the quality and meaningfulness of information disclosed for ECL estimates, the AMF expects financial institutions to provide an explanation of significant changes to the estimation of ECL on a regular basis. This information should include both relevant qualitative and quantitative disclosures. It should also enhance the understanding of how ECL estimates have changed.

The AMF expects senior management to regularly review its disclosure policies to ensure that the information disclosed continues to be relevant to the financial institution's risk profile, product concentrations, industry norms and current market conditions. A financial institution should aim to provide disclosures that facilitate comparisons with its peers. Such disclosures will enable interested parties to monitor changes in the financial institution's ECL estimates from period to period and will allow users to perform meaningful analyses across peer groups.

2. Impairment of loan exposures for Standardized Financial Institutions[23]

2.1 Forward-looking information

The AMF expects a Standardized Financial Institution to incorporate forward-looking information into its ECL assessment and quantification process.

A Standardized Financial Institution should use its experienced credit judgment to incorporate the expected impact of reasonable and supportable forward-looking information, including macroeconomic factors, on its estimate of ECL. A Standardized Financial Institution's use of its experienced credit judgment is integral to its credit risk methodology and should be documented and subject to appropriate oversight.

A Standardized Financial Institution may incorporate forward-looking information in a variety of ways, such as by using individual and/or collective estimates. This could also be done through modelled approaches or the use of temporary adjustments.

Additionally, Standardized Financial Institutions are considering a wide range of information, including forward-looking information, for risk management and stress testing purposes. The AMF expects Standardized Financial Institutions to consider reasonable and supportable information derived from the different stages in the credit risk management process when developing their ECL estimates, such as information and assumptions relevant to ECL used in stress testing, planning, etc.

[23] Standardized Insurers should, in particular, apply this section in addition to the Guideline on Capital Adequacy Requirements (Credit risk – balance sheet items) – AUTORITÉ DES MARCHÉS FINANCIERS, Guideline on Capital Adequacy Requirements, January 2024.

2.2 Past-due information

Accordingly, the AMF expects a Standardized Financial Institution to limit its use of the more-than-30-days-past-due rebuttable presumption as a primary indicator of transfer to ECL quantification for the life of the loan.

The AMF expects that any assertion that the more-than-30-days-past-due presumption is rebutted on the basis that there has not been a significant increase in credit risk will be accompanied by a thorough analysis clearly evidencing that 30 days past due is not correlated with a significant increase in credit risk.

Such analysis should consider both current and reasonable and supportable forward-looking information that may cause future cash shortfalls to differ from historical experience.

In the limited instances where past-due information is the best criterion available to a Standardized Financial Institution to determine when exposures should move to the lifetime ECL measurement category, Standardized Financial Institutions should pay particular attention to their measurement of 12-month ECL to ensure that ECL are appropriately captured in accordance with current Canadian accounting standards.

Moreover, Standardized Financial Institutions should recognize that significant reliance on backward-looking information could introduce bias into the implementation of an ECL framework, risking that the objectives of the impairment requirements under the current Canadian accounting standards are not met.

Standardized Financial Institutions should notify the AMF of any material changes to their ECL methodology and/or ECL level.

The AMF expects Standardized Financial Institutions to establish and maintain a materiality definition with respect to modifications to its methodology for establishing ECL allowances and the level of ECL. In arriving at a suitable assessment of materiality, the Standardized Financial Institution should consider a combination of factors, including impact to systems, data, and processes.