IFRS 9 Lump Sum Specific Provision

For non-significant financial assets that are assigned to stage 3, risk provision is treated as Lump Sum Specific Provision.

The calculation of lump sum specific provisions for non-significant deals is covered by the component Collective Impairment Workbench. As such, the configuration is embedded in master scenarios.

Once segmentation rules, stage assignment rules, thresholds for the significance have been configured, the models for the ECL calculation in the Collective Impairment Workbench have been defined and the master scenario has been approved, the risk provisioning process is performed fully automatically.

The standard approach considers PD and LGD taking segment and stage into account.

Separate segments can be defined for collateralised deals and non-collateralised deals. This separation might lead to individual PD and especially individual and different LGDs for financial asssets that are collateralised and those assets that are not collateralised.

While calculating the risk provision at individual deal level, the standard approach in FlexFinance does not differentiate whether or not collateral has been allocated for a non-significant deal.

However FlexFinance provides the option of considering individual items of collateral even for non-significant deals while calculating the EAD.

The calculation of the amount of the lump sum specific provision takes statistical methods into account. These methods are applied to the historical performance data for the segment. The outcome is a loss rate that is applied to the total exposure for an individual deal.