As an organisation-wide change, current expected credit loss (CECL) poses significant implementation challenges for financial institutions, such as:

Classification challenges

- **Fuzzy definitions**: Classification can create new challenges for senior management as business model definitions need to be more objective
- **Cash flow comprehension**: Solely payments of principal and interest (SPPI) assessment at instrument level requires understanding of future cash flow characteristics, which may be challenging for some complex/exotic products
- **Robust data requirement**: Fair value data for loans need to be more accurate and robust

Modelling challenges

- **Flexibility of models**: Existing models will need the flexibility to incorporate both the 12-month and lifetime probability of default under consideration
- **Granularity and volume of data**: Models now need to run at the instrument level, creating challenges for information as well as for implementation. This will increase both the volume and granularity of data required
- **More models**: Greater portfolio segmentation is likely, and that may lead to more number of models being run
- **TTC to PIT conversion**: The conversion from through-the-cycle (TTC) to point-in-time (PIT) model for calculation of expected credit loss can present new challenges, given that most organisations still use the former

Operational challenges

- **Infrastructure and information technology**: The huge amount and dynamic nature of data requirement for CECL implies that new, robust and scalable systems must be put in place. A complete revamp of the existing IT infrastructure and hardware systems may be in order. Adoption of new hardware and technology is bound to increase costs and put additional stress on the bottom line
- **Disclosure requirements**: Reconciliation between IAS 39 measurement and new measurement categories under IFRS 9. Additional qualitative and quantitative information such as inputs, assumptions, and estimation techniques will be required to determine the extent of rise in credit risk and default
- **Governance and regulation**: Significant regulatory and market focus will drive interpretation of key aspects of the rules, implementation standards, and best practices, with knock-on effects for banks' IFRS 9 implementation
- **Controls:** Higher data volume and more complex models will require more controls to be put in place so that data quality norms are not breached

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