Mr. William Coen  
Secretary General  
Basel Committee on Banking Supervision  
Centralbahnplatz 2  
4051 Basel, Switzerland

Brussels, 1 December 2014

Dear Mr. Coen,

The World Savings and Retail Banking Institute would like to bring to your attention some concerns in regards to the treatment of expected losses in the context of prudential requirement. There is an over-riding concern amongst our membership that the treatment of expected losses will not be aligned with that prescribed by the recently finalised International Financial Reporting Standard IFRS 9 Financial Instruments.

A prudential adjustment diverging from IFRS 9 would be dangerous, for instance for the European economy, as this would lead to overprovisioning that would restrict lending, more specifically lending to SMEs and professionals. SMEs would be specifically hard hit because lending to SMEs is commonly defined as lending to non-investment grade entities. This is not necessarily an indication of lower creditworthiness of SMEs but is rather the result of less observable market data in relation to these entities. Increased credit provisions required from financial institutions will drive up SMEs’ costs of obtaining credit and it will also diminish financial institutions’ ability to lend to these entities.

The WSBI believes that impairment guidelines should be principle-based and flexible to ensure alignment between impairment and risk management practices across diverse business models and activities. We further put to you that any additional guidance on IFRS 9 from the Basel Committee should not be prescriptive with certain methodologies or data requirements. The guidance needs to be mindful that today’s banks have different systems and risk management methodologies. Banks need the flexibility to implement the most appropriate solution to their specific circumstances. A 'one size fits all' approach will not work as it will fail to consider the plurality of financial institutions globally.

Guidance should not conflict with the requirements of the standard. It is critical that banks are fully compliant with IFRS 9 as published by the IASB. Bias or undue prudence should not be introduced into the measurement bases as the standard requires the use of unbiased, probability weighted, best estimate values. Excessive prudence will lead to greater volatility and conflict with the fundamental concepts of financial reporting. It is also important that a prudential adjustment does not result in multiple different calculations on expected credit losses. This would be burdensome and would undermine IFRS 9.

The use of practical expedients should not be prohibited entirely. For example, for certain portfolios due to their size or nature, the expedients offered in the standard may be entirely appropriate.
We would appreciate if you could issue guidance, even if in draft form, as soon as possible. Many banks are in the process of completing their assessment of IFRS 9 and will start to implement the data and model solutions early in 2015. Any proposal from Basel that would seek to overlay additional regulatory requirements would be especially detrimental to the savings and retail banking sector. This is a topic of great importance to our membership and we hope that we can continue our exchange with the Basel Committee as a relevant stakeholder representing the savings and retail segment of the banking industry.

Best regards,

Chris De Noose
Managing Director