ESBG

ESBG response to the IASB's RFI as a part of IFRS 9 PIR on Impairment requirements

High-level position paper – Executive summary

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The European Savings and Retail Banking Group (ESBG) responded to the IASB's Request for Information for the Post-implementation Review of IFRS 9's impairment requirements. The 'expected credit loss' model in IFRS 9 replaced the previous 'incurred credit loss' model, which only allowed credit losses to be recognised when a loss event occurred. As part of this review, the IASB is examining various aspects of the model, including the general approach to recognition of expected credit losses (ECL), significant increases in credit risk (SICR), the measurement of ECL, the prevalence of particular questions from entities on how to apply the ECL requirements to purchased or originated credit-impaired financial assets (POCI) and the simplified approach to recognition of ECL for trade receivables, contract assets and lease receivables, among others.

The general approach to recognising expected credit losses

ESBG highlights that financial entities face ongoing cost risks due to regulatory interpretations of IFRS 9, specifically related to the measurement of expected credit losses for Stage 1 financial assets facing individual assessments for significant credit risk increases. The lack of clear guidance in IFRS 9 results in varied interpretations by regulators and enforcers. To address this, the proposed solution suggests amending the Standard to explicitly clarify that assessing credit risk increases individually should not preclude collective loss calculations. This change is supported by a cost-benefit analysis, indicating that collective calculations are more efficient given minimal differences and resource demands compared to individual assessments.

Determining significant increases in credit risk

ESBG highlights two key issues regarding significant increases in credit risk (SICR). Firstly, the concept of SICR lacks clarity, leading to inconsistent interpretations due to subjective assessments and variable triggers. Secondly, the exemption assuming low credit risk at the reporting date is operationally complex, reliant on expert judgment, and mainly suited for extremely low probability of default cases, making it impractical for most situations. Proposed solutions involve clarifying SICR determination methods and providing further guidance on extending the low credit risk exemption, aligning with Basel Committee on Banking Supervision standards.

Measuring expected credit losses

ESBG supports EFRAG's appreciation of the principle-based approach in measuring expected credit losses, offering flexibility based on entity sophistication, data, and regional factors. However, the lack of specific guidance has led to inconsistencies and varying macroeconomic scenarios among similar entities in the same regions, including factors like variables, scenario counts, timeframes, weights, and granularity. To remedy this, we urge the IASB to provide additional application guidance, illustrative examples, and clear "bright lines" for consistent use of forward-looking information, aligning with IASB's expectations.

Purchased or originated credit-impaired financial assets

The current accounting approach for POCI assets poses consistency challenges, especially for financial institutions where POCI assets are not central to their business model. These institutions face operational difficulties and rely on manual adjustments due to IT system limitations, leading to inconsistencies in practice. To address this, it is proposed to allow POCI assets to be classified in stages with transfers, implement a gross-up approach for recognizing initial expected credit losses, and continue stage 3 accounting for credit-impaired loans subject to restructuring, providing a more accurate reflection of management's objectives.

Credit risk disclosures

We support EFRAG's assessment that current credit risk disclosures lack clarity and comparability. The proposed solution involves setting clear disclosure objectives, requiring judgment in compliance, and implementing entity-specific disclosure requirements. This will enhance communication and comparability, especially regarding significant credit risk increases, post-model adjustments, and climate-related risks.

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