Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures

(now including updates to the second report)

A third report prepared by

The Taskforce on Disclosures about Expected Credit Losses

23 September 2022

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Introduction

Background

1 The adoption of IFRS 9 *Financial Instruments* for accounting periods starting on or after 1 January 2018 resulted in significant changes to the accounting treatment of financial instruments. For banks and similar financial institutions (hereafter referred to as 'banks'), IFRS 9's expected credit loss impairment model (referred to as 'ECL' in this report) had an impact on the size and nature of their impairment provisions, and therefore on their balance sheets and profit and loss accounts, and continues to be of interest to a wide range of external stakeholders, including investors, analysts and regulators. Effective disclosure is key to helping those stakeholders understand the ECL provisions and ECL's inherent complexities.

2 IFRS 7 *Financial Instruments: Disclosures* sets out the disclosures that are required to be provided in this area, and those requirements are supplemented by recommendations that the Financial Stability Board-sponsored Enhanced Disclosure Task Force (EDTF[1]) issued on the subject in December 2015 (Impact of Expected Credit Loss Approaches on Bank Risk Disclosures). Furthermore, IAS 1 *Presentation of Financial Statements* requires disclosure around estimation uncertainty. These documents are essential reading but, during the course of 2017 as banks' implementation of ECL was progressing, the Financial Conduct Authority (FCA), the Financial Reporting Council (FRC) and the Prudential Regulatory Authority (PRA) jointly came to the conclusion that, to help encourage high-quality ECL-related disclosure from implementation and to encourage those disclosures to develop subsequently in the right direction, something more was needed.

3 As a result, in November 2017 those three UK regulators jointly established and sponsored a UK taskforce on disclosures about ECL (the 'Taskforce'). The idea was that the Taskforce would be a partnership between the preparer community and the investor and analyst community, coming together to engage constructively on ECL disclosure. The model for this was the EDTF.

4 The membership of the Taskforce was determined by the sponsors. They chose to restrict the preparers on the Taskforce to representatives from Barclays Group, HSBC, Lloyds Banking Group, Nationwide Building Society, NatWest Group, Santander UK and Standard Chartered Bank. They chose a balanced selection of analysts and investors covering 'buy-side' and 'sell-side', equities and fixed income. The Taskforce members – preparers and analysts/investors – were asked to participate in their personal capacity. The sponsors also invited the Big Four audit firms to provide secretarial support to the Taskforce by participating in a non-decision-making role. The members and Secretariat of the Taskforce are listed in Appendix III.

5 The sponsors set the overall objective of the Taskforce, which is to promote high-quality disclosures about ECL and, over time, to take steps to encourage greater consistency between and comparability of those disclosures, whilst recognising the need for the disclosures to reflect each reporting entity's facts and circumstances. With this in mind, the sponsors asked the Taskforce:

- to first of all develop a set of recommendations on ECL disclosure that build on the required IFRS disclosures and relevant EDTF recommendations[2] and that, when taken together with those other requirements and recommendations, describe what a

[1] The Financial Stability Board (FSB) established the Enhanced Disclosure Task Force, a group comprising banks, analysts, investors and auditors. Its mission was to enhance the risk disclosures of the world's largest banks. The EDTF's 32 recommendations for banks were published in 2012.

[2] See EDTF report 'Enhancing the risk disclosures for banks' released on 31 October 2012 and its later report 'Impact of expected credit loss approaches on bank risk disclosures' released on 30 November 2015.

complete set of high-quality ECL disclosures might look like. That description should contain sufficient detail for the suggested focus of the disclosures to be clear, but without presenting pro forma disclosure templates or otherwise prescribing how each disclosure is presented. The Taskforce's first report, which was published in November 2018, set out those recommendations;

- then to develop more detailed guidance, including illustrative examples where appropriate, describing how disclosures – including those recommended in the first report – can be presented in a broadly harmonised way. The second report, published in December 2019, contained that more detailed guidance, including illustrative examples; and

- to further its overall objective by producing a third report, comprising a comparison of preparers' and users' assessments of adoption of Taskforce recommendations, good practice disclosure examples, and other amendments to address gaps, deficiencies or to otherwise improve existing material.

6 This third report represents the culmination of these three stages of the Taskforce's work.

7 The recommendations in the Taskforce's reports were developed primarily for use by the banks and the building society represented on the Taskforce. However, the recommendations may be of relevance to other banks as a guide to best practice, particularly for those that manage their investor-base actively.

8 The Taskforce expects that the main readership of this report will be those preparing ECL-related disclosures, as well as those responsible for governance and oversight. They will be familiar with the concepts of ECL, so the report contains material of a technical nature and assumes a certain level of understanding of the measurement and related disclosure requirements of ECL. However, this report includes a summary of what the Taskforce believes are the most important ECL considerations to facilitate its use by other interested stakeholders (see paragraph 51).

9 This third report builds on the recommendations, guidance and illustrative examples in the first and second reports to ensure that they continue to meet the objectives set out above. It makes various amendments to the second report to reflect the work undertaken described in paragraph 10 below, as well as to reflect evolving disclosure practice. A "red-line" version of the Recommended disclosures, illustrative examples and other guidance material part, showing changes from the second report, is published as a separate document[3]; that is aimed in particular at those who are familiar with previous reports and wish to focus on the changes. This report may be read as a standalone document that covers the output of the Taskforce to date.

[3] https://www.frc.org.uk/getattachment/3254c625-6a60-48d1-9088-91edbacfc6b2/DECL-III-Final-Recommendations-Redline-to-DECL-II.pdf

Overview of the third report

10 The Taskforce's work in order to prepare the third report focused on the three areas below:

- *Assessments*
  The Taskforce's preparer members assessed how far they have progressed in adopting the Taskforce recommendations included in the second Taskforce report, and these were compared to the Taskforce's user members' assessments of preparer adoption for selected recommendations. The user assessments and comparisons focused on thirteen of the recommendations, which were selected by the Taskforce as being the most challenging to prepare, requiring significant judgement in order to prepare, and/or being the most important to users. They were assessed as "fully adopted", "partially adopted" or "not adopted". The selected recommendations are listed in Appendix I and the assessments are discussed from paragraph 13. The assessment work was performed on the disclosures included in preparers' 2020 annual reports and practice may have evolved since (in particular, in response to the Covid-19 pandemic).

- *Good practice examples*
  The Taskforce identified good practice examples of how some recommendations (and other Taskforce guidance) from the second report had been implemented. These examples are included in the relevant recommendations.

- *Gaps and changes*
  Considering the results of the assessments, and in light of further experience with ECL and ECL disclosures in practice, the Taskforce considered gaps in the material in the second Taskforce report. In particular, the Taskforce was able to consider experience of ECL disclosures during a period of economic uncertainty, over 2020 and 2021. The Taskforce made amendments to the report to address such gaps as well as to make other improvements that were deemed necessary for a complete set of high-quality ECL disclosures. Changes made to the third report, including from the gaps and changes work, are described from paragraph 22 below.

11 As noted above, the Taskforce focused on the recommendations that were determined to be the most challenging, required the most judgement or that were seen by users as being particularly important. In order to make this selection, the Taskforce first focused on the recommendations that included quantitative disclosures (from chapters C to G). In addition to these, the Taskforce added recommendation B.8 on post-model adjustments and overlays. Recommendation F.5 was not considered as part of the assessment phase and was added for the gaps and changes work in response to the Taskforce's desire to clarify the recommendation. The recommendations included in the scope of the work for the Taskforce's third report are set out in Appendix I.

12 The Taskforce continues to consider all of the recommendations in the second report to be important. Its focus on particular recommendations for the purposes of the third report should not be read as meaning that banks should give less weight to other recommendations. The recommendations in their entirety, along with required IFRS disclosures and relevant EDTF recommendations, comprise a complete set of high-quality ECL disclosures.

Assessments

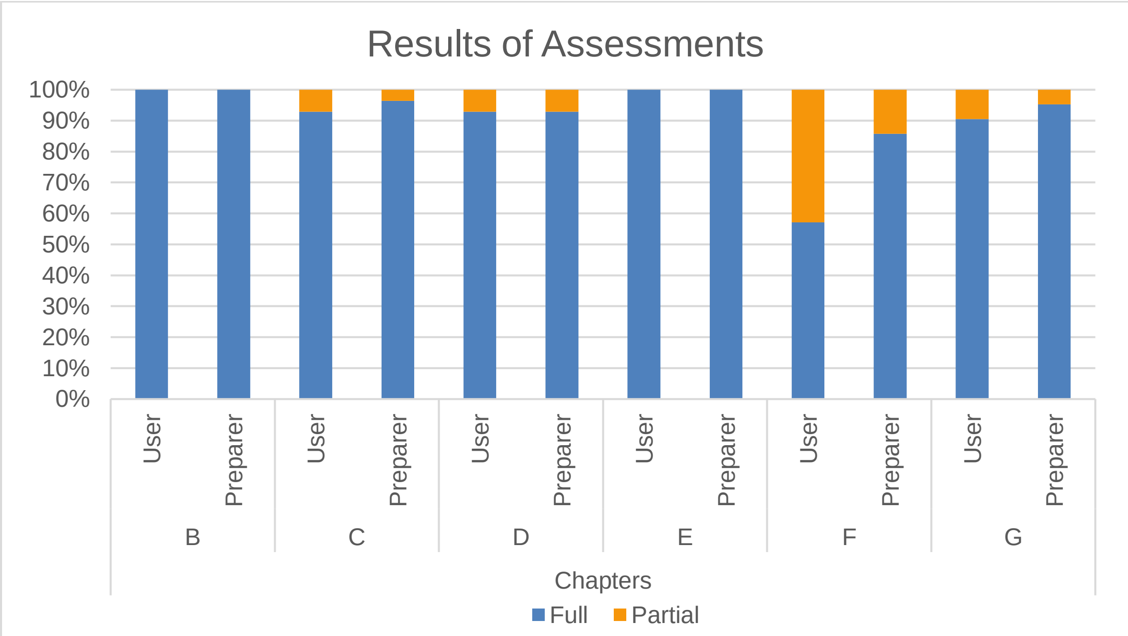
13 The overall results of the preparer and user assessments were very positive, demonstrating a high level of adoption of the selected recommendations. The results discussed below, for both preparers and users, cover those selected recommendations detailed in Appendix I (other than F.5).

14 For the recommendations selected for assessment, the preparer group assessed full adoption at 96%. By contrast, the user-group assessed 91% full adoption of the recommendations (the remainder were assessed as partially adopted by both groups, with no recommendations "not adopted").

Table A: Results of assessments (13 recommendations reviewed for 7 preparers)

	Preparer Assessment	User Assessment
Partially Adopted	4	8
Fully Adopted	87	83
% Fully Adopted	96%	91%

Chart A: Results of assessments (by recommendation chapter)



15 The following recommendations were assessed to have less than full rates of adoption by the Taskforce:

- C.3 Quantitative disclosure of the weighting assigned to each scenario and an explanation of the period-on-period changes in scenario weightings. The "partially adopted" assessment was based on preparers that had not disclosed the prior period comparatives for the scenario weightings.

- C.7 Quantitative disclosure of the ECL that would result using only the central scenario assumptions, by material portfolio. Those preparers assessed as "partially adopted" were considered to have made disclosures with a lack of sufficient granularity. Users found the application of the definition of material portfolio (when considering the impact on ECL) to be inconsistent with some significant portfolios (for example, credit cards) not being separately disclosed.

- D.1 Qualitative and quantitative disclosure explaining the movements of the population between stages in the reporting period by gross exposure. This recommendation was assessed as partially adopted as not all preparers provided the disclosure by the granularity specified in the recommendation.

- F.1 Quantitative disclosure of credit rating by class. The assessed lower rate of full adoption was based on the lack of granularity used in the disclosure, i.e. the number of categories and portfolio breakdown.

- G.4 Multi-factor sensitivity analysis. The assessed lower rate of full adoption was based on gross carrying amount having not always been included in the disclosure.

16 Two over-arching themes, identified as important in helping understanding disclosures about ECL, emerged across assessments performed for the recommendations in scope, including for those assessed as “fully adopted”.

17 First, taskforce members noted the importance of disclosures that are sufficiently granular and comparable across banks. Three main aspects of granularity that would aid comparability were raised:

- Breakdowns by portfolio/type of exposure (for example, mortgages, credit cards). In particular, the Taskforce noted the lack of consistency of the breakdowns included across preparers.

- Breakdowns by geography, for which the Taskforce noted that users had a particular interest in more granular disclosure for UK exposures.

- Breakdown of recommendations by drawn (on-balance sheet) and undrawn exposures (off-balance sheet).

18 Second, taskforce members noted that judgemental adjustments to modelled ECL (including overlays and post-model adjustments) were often an important element of ECL and saw a need for additional disclosure about such adjustments and where they have been included within a bank’s disclosures about ECL.

19 The above areas were identified as aspects of best practice when included in banks’ disclosures, and as areas for possible enhancement when fully or partially absent from banks’ disclosures. As noted earlier, the results of the assessment work have fed into the gaps and changes work and the amendments made in this report.

Good practice examples

20 The assessment work included the identification of good practice disclosure examples. These examples informed the changes made by the Taskforce in this third report. The good practice examples from preparers’ 2021 annual reports are included within each chapter of the Recommendations part of this report, accompanied by a description of the characteristics which users wished to highlight – sometimes these are about the information that is presented and sometimes about how it is presented, for example, in tabular form or combining different recommendations.

21 The good practice examples are not exhaustive and their inclusion is not intended to imply that there are no additional similar examples in other banks’ financial statements. Their inclusion is also not intended to imply compliance with the applicable accounting standards.

Significant changes made in the third report of the Taskforce

22 The assessments, identification of examples of good practice and the gaps and changes work resulted in the changes that are included in the third report. The most significant changes made in the third report are described in this section and comprise changes made as a result of the thematic issues. Other substantive changes are set out in Appendix II. As noted in paragraph 10, the Taskforce was informed by experience during a period of heightened economic uncertainty during 2020 and 2021. Other changes, including those that were made only to conform terminology and improve consistency are not discussed below or in Appendix II.

23 The Taskforce wishes to emphasise that the changes have been made in the context of the second report's comprehensive recommendations and of a high level of adoption of the recommendations that were assessed. The Taskforce did not find major issues with either the recommendations or with how these had been adopted by preparers. Rather, the changes were informed by further experience of using ECL disclosures, particularly through the economic conditions of 2020 and 2021, when the importance of comparability and disclosures about judgemental adjustments became more apparent. Most of the other changes were made to add clarity and precision to the recommendations or to reflect developments in practice.

<u>Granularity and comparability – asset groupings and geographical breakdowns</u>

24 Credit risk characteristics differ between asset groupings – for instance, secured versus unsecured, retail versus corporate lending, geography and whether an exposure is recognised on the balance sheet or is off-balance sheet. Stresses can also impact different asset groupings in different ways. Therefore, the presentation of ECL disclosures split in different ways can often provide more useful information for users, from which more precise analysis can be made. In addition, more effective analysis can be carried out across the sector when the same minimum asset breakdowns are presented consistently by banks. The previous Taskforce report did not specify recommended breakdowns of asset groupings, which meant that Taskforce recommendations were presented by preparers at differing levels of granularity. In addition, the levels of granularity provided varied both across different recommendations and disclosures as well as between preparers. This makes it more challenging for users to compare risk profiles across preparers and perform meaningful benchmarking to draw conclusions.

25 Relevant accounting standards can sometimes require breakdowns to be made according to how information is used and reported by banks internally. The Taskforce is clear that its report does not override the reporting requirements included within accounting standards (see paragraph 50). Nevertheless, the Taskforce had a desire to also have more comparable granular breakdowns within banks' disclosures.

26 The Taskforce has therefore introduced the concept of "Disclosures about Expected Credit Losses Groupings" ("DECL Groupings") to specify a minimum framework of granularity that it recommends to be used by banks to enable better comparability. This comprises:

- Separate presentation of the UK business:

    i. Drawn (on-balance sheet) amounts to be presented for loans and advances to customers and disaggregated into: retail – mortgages, retail – credit cards, retail – other, corporate loans.
    ii. Undrawn (off-balance sheet) amounts (where material) to be presented for loans and advances to customers and disaggregated into: retail – mortgages,

retail – credit cards, retail – other and corporate loans, or else reconciled to relevant totals (where not material).

- Banks may also disaggregate additional other regions or territories by product groupings if they are material or they believe it to be useful for the users of their disclosures.

27 Banks are encouraged to use these DECL Groupings for the following recommendations:

- Judgemental adjustments (Recommendation B.8)
- Coverage and exposure by credit risk rating (Recommendations D.2, F.1 and F.2)
- Sensitivity analysis (Recommendation G.4)

28 Disclosures in line with DECL Groupings may be provided where they comply with relevant accounting standards or in addition to the requirements of relevant accounting standards. These changes are reflected in the discussion of materiality and granularity at paragraphs 45 to 50 below.

29 The introduction of the DECL Groupings may result in additional quantitative disclosures being made by banks. The Taskforce noted that its report already included guidance for banks on the location of the disclosures necessary to meet with the recommendations. To further reiterate the flexibility banks have in this regard (namely, the Taskforce report does not mandate that the location of the disclosures be in the annual report or related filings), the text in Paragraph 43 was amended and 'or elsewhere' added.

<u>Judgemental adjustments</u>

30 Since the beginning of 2020, banks have made more significant judgemental post-model adjustments (PMAs) or overlays than previously (for example, to reflect the increased level of uncertainty and unprecedented government support during the Covid-19 pandemic), in order to produce ECL estimates in accordance with the requirements of IFRS 9. The nature and size of such adjustments has varied both across banks and over reporting periods, and banks have made different disclosures in relation to such adjustments. As a result, the Taskforce saw a need for enhanced recommendations and further guidance (including the addition of an illustrative example) to be included in the recommended disclosures about adjustments made to modelled ECL.

31 Recommendation B.8 in the second Taskforce report asked for "An explanation, for each material post-model adjustment or overlay made, of the reason for the adjustment; how its amount (including increases and decreases through release or otherwise) is determined; and the approach used for its estimation. The amount of each material post-model adjustment or overlay should also be disclosed".

32 Recommendation B.8 has been enhanced by providing a definition of judgemental adjustments, noting different types of adjustment (post-model adjustments and overlays) to aid consistency. Adjustments to model inputs or calculations (often called 'in-model adjustments') are not generally expected to fall within the scope of this recommendation, because they typically do not require significant judgement (for example, they are made on a recurring basis and are subject to model and data updates within a model governance framework) and are not expected to be subject to material revisions over the next 12 months.

33 Recommendation B.8 has also been updated to include an illustrative example showing how banks might present quantified material judgemental adjustments through a reconciliation of ECL before judgemental adjustments to total reported ECL. This will help users to understand

how such adjustments impact the ECL estimate. A qualitative example has also been included.

34 In line with the granularity and comparability changes noted above, the recommendation asks for the disclosure to be analysed by DECL Groupings, where practical to do so.

Other substantive changes

35 The Taskforce made further substantive changes to recommendations C.3, C.4, C.6, Chapter D, Chapter E, F.1, F.5 and G.1-6. These are described in Appendix II.

Disclosure principles and overarching considerations

Disclosure principles

36 IFRS 7 explains that the purpose of its credit risk disclosures is to:

> "enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:
>
> (a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses;
>
> (b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and
>
> (c) information about an entity's credit risk exposure (ie the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations."[4]

37 In developing its recommendations, and building in particular upon existing IFRS 7 disclosures, the Taskforce has concluded that high-quality, ECL-related disclosures need to:

- present complex concepts and the results of ECL computations in a clear and understandable way;
- present relevant information on material items which reflects the activities and risk exposures of a bank;
- provide a range of disclosures that, when taken together, provide insight into the effects of the policies, methodologies, inputs and assumptions used in determining ECL;
- explain the judgements and estimates that are material to determining ECL and to facilitate comparison of a bank's results over time; and
- facilitate improved comparability between banks to the extent possible and to help users to better understand the reasons for differences in their risk exposures and provisioning levels.

38 This conclusion is broadly aligned with the seven fundamental principles of risk disclosure identified by the EDTF in its October 2012 report. When designing disclosures to meet this report's specific recommendations, regard should also be had to those fundamental principles.

[4] IFRS 7.35B

Overarching considerations

39 Set out below are considerations applicable to all the recommended disclosures.

<u>Timetable for adoption</u>

40 Preparers are encouraged to adopt the updated guidance in this third report as soon as possible; and ideally, and where practicable, for accounting periods ending on or after 31 December 2023.

<u>Frequency of disclosure</u>

41 IAS 34 Interim Financial Reporting requires that:

> "an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report."[5]

If any of the information that would be provided by the recommended disclosures is necessary to explain "events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period", banks are encouraged, in complying with the requirements of IAS 34, to provide the information in the form described in this report.

42 Where there is a requirement for a disclosure to be presented with a particular frequency then this should be complied with regardless of any recommendations in this report.

<u>Location of the recommended disclosures</u>

43 The recommended disclosures have been designed primarily with the intention that they will be located in the financial statements or elsewhere in the annual report. However, the Taskforce generally does not specify where any of the disclosures it recommends should be made, nor does it suggest that banks change the location of any existing disclosure because of the recommendations in this report. Banks continue to have flexibility, within the constraints of existing requirements (for example, IFRS 7 disclosures are required to be included in the annual report and must either be included in the audited financial statements directly or through a cross-reference) in what they choose to disclose in their annual reports and other filings, such as their Pillar 3 reports, or elsewhere.

44 Indices and glossaries are generally considered helpful in explaining more complex terminology and helping users understand the location of dispersed disclosure, so should be considered by banks in presenting the recommended disclosures.

<u>Materiality and granularity</u>

45 Consistent with principles in IFRS, the recommended disclosures only apply to material items. Where a recommended disclosure is not material, it need not be given. Materiality should be assessed with regard to both qualitative and quantitative aspects. In making this assessment, consideration should be given to groups of exposures that may have a material impact on

[5] IAS 34.15

ECL (for example, where ECL is most sensitive to changes in macroeconomic factors), even if the total exposure might be a relatively small proportion of the preparer's balance sheet.

46 Providing an appropriate level of granularity in the disclosures is important. Too little detail and material information will be omitted. Too much detail and the disclosures will be voluminous (therefore difficult to use and costly to produce) and material information can be obscured[6].

47 The appropriate level of detail for the recommended disclosures will vary depending on the nature of the disclosure and business model of the bank. Different portfolios can have very different implications for ECL estimates, so understanding the implications of the product mix can be important, but can also lead to disclosure that is so voluminous that it is not usable. The aim should be that the granularity is such that the objectives of IFRS 7 disclosure and the disclosure principles guiding the content of this report (see paragraphs 36 to 38 of this report) can be met. Where appropriate, the level of granularity should be consistent across different disclosures presented by an individual bank.

48 With this in mind, and as users find disclosures most useful when they allow direct comparison across different entities, within this report references to disclosures being provided by 'DECL Groupings' (see recommendations B.8, D.2, F.1, F.2 and G.4) means that, where material, disclosures for loans and advances to customers should be disaggregated by geography, product groupings and drawn/undrawn as set out below:

DECL Groupings		
	UK business The UK business should be disaggregated as described below.	**Rest of the World** The amounts below should be shown separately for different countries / regions as judged appropriate by the bank depending on materiality.
Drawn loans and advances to customers	Analysed by the following product groupings: Retail – mortgages Retail – credit cards Retail – other Corporate loans[7]	Analysed by product groupings as judged appropriate by the bank.
Undrawn loans and advances and other off-balance sheet exposures	If material, analysed separately to drawn amounts by the following product groupings: Retail – mortgages Retail – credit cards Retail – other Corporate loans[7]	If material, analysed separately to drawn amounts by product groupings as judged appropriate by the bank.

49 The Taskforce notes that individual recommendations may be more or less relevant in different years and for different banks. The Taskforce recognises that banks need to make decisions about materiality based on their own circumstances, though with the context of recognising the importance of comparability. In addition, the importance of particular disclosure recommendations may change over time – for example, more or less disclosure about judgemental adjustments may be appropriate depending on how significant such adjustments are.

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[6] IFRS 7.35D states "an entity shall … consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed". IFRS 7.B3 states "…It is necessary to strike a balance between overburdening financial statements with excess detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation.". Please also see IAS 1.29 -31.

[7] Banks should determine and explain what loans to customers fall within the 'retail - other' and 'corporate loans' categories based on the different lending products that they have.

50 For the avoidance of doubt, banks will need to continue to comply with the relevant securities laws and reporting and accounting requirements applicable to their activities. This report does not in any way modify or remove existing requirements and recommendations laid out by relevant bodies, including the IASB and the EDTF.

What this report recommends and why it matters

51 To provide context to this report and the recommended disclosures in the following section, set out below is a summary of what the Taskforce views as the most important considerations for ECL. It highlights related disclosures, explains why they matter to users and it explains where in this report the specific Taskforce recommendations relating to these disclosures can be found.

A **Alignment between accounting for credit losses and credit risk management activities**

IFRS 9's ECL requirements introduced a different way of looking at credit risk. Understanding the extent of the alignment between accounting for credit losses and credit risk management activities can help users relate ECL information to other data points, both current and historical. Recommendations on disclosures regarding how credit risk management practices align to the ECL approach are set out from page 17.

B **Policies and methodologies**

IFRS 9 required new policies and methodologies to be developed to measure ECL. This included the use of new and existing terminology, definitions and data points which banks should explain in their reporting. Examples include categorisation of instruments into 3 'stages' according to credit risk and performance (referred to as 'staging'), and the definition of 'default' and 'credit-impaired' (sometimes referred to as 'stage 3'). Understanding how such terms have been defined and applied by each bank can help users identify differences in the factors used in the calculation of ECL allowances (both across banks and over time) and so aid comparability. Recommendations on disclosures to help users understand how ECL has been calculated and on the definitions, policies and methodologies applied are set out from page 19.

Understanding the extent to which a bank's ECL is impacted by judgemental adjustment is an area of interest to users, in particular given the increase in the use of post-model adjustments and overlays during periods of increased economic uncertainty. The recommendation on disclosures about judgemental adjustments are set out from page 23.

C **Forward-looking information**

Incorporating forward-looking information in the estimate for ECL is a key requirement of IFRS 9. A particularly complex aspect is the need to consider range of possible forward-looking economic scenarios when calculating ECL, given the potential effect of non-linearities on ECL. These non-linearities can arise where the increase in credit losses if conditions deteriorate exceeds the decrease in credit losses if conditions improve. This means an unbiased ECL estimate must consider these different possible scenarios. Understanding the judgements made in selecting different forward-looking economic scenarios, determining the weightings applied to different scenarios, and the resulting impact on ECL can help provide users with insight into the exposures potentially most impacted by future changes in economic conditions. Recommendations on disclosures regarding forward-looking economic scenarios are set out from page 28.

D Movement and coverage across stages

Tracking the movement of the population between stages gives insight into changes in credit risk and disclosure of provision coverage across stages enhances comparability across banks. When measuring ECL, a key judgement is whether there has been a significant increase in credit risk (SICR) since initial recognition leading to the instrument moving from ‘stage 1’ to ‘stage 2’. This is a key judgement because moving from stage 1 to stage 2 results in the ECL provision increasing from a provision for expected credit losses arising from default events that are possible in the next 12 months to a provision for lifetime expected credit losses. Subsequent decreases in credit risk may similarly result in significant changes in provisions. Understanding the causes of SICR can provide users with further insight into portfolio credit quality, and the impact on ECL. Recommendations on disclosures regarding the income statement effect of SICR during the period and ECL coverage levels and reconciliations of movements, which include income statement charges, are set out from page 39.

E Changes in the balance sheet ECL estimate

The increased complexity of the ECL approach, compared to the previous requirements of IAS 39, increased the range of factors that can cause changes in credit impairment provisions. Understanding changes in the balance sheet ECL estimate between reporting dates and the reasons for those changes, including the changes attributable to movements in gross carrying amounts, helps users understand the factors driving change in overall ECL levels and the impact on the income statement charge. Recommendations on reconciliations of movements, which include income statement charges, are set out from page 45.

F Credit risk profile

IFRS 9 introduced relative credit risk as one of the drivers of provision levels. Understanding the link between relative credit risk and the absolute credit risk profile of the financial instruments involved can help users to better understand the material credit risks the bank is exposed to. In addition, understanding where credit risk has deteriorated since origination, triggering an exposure to move to stage 2, can help users understand how SICR is working. Recommendations on additional disclosures about the absolute credit risk profile per stage and the associated ECL are set out from page 47.

G Measurement uncertainty, future economic conditions, and critical judgements

The increased complexity of the ECL approach and the longer time horizons over which credit losses are modelled also significantly increase the judgement required in estimating credit loss allowances and their potential volatility. Understanding the measurement uncertainty in ECL allowances arising from critical estimates (including judgements) can help users understand the assumptions that management has made about future economic conditions and the sensitivity of the ECL estimates to those assumptions as well as how the ECL included in the sensitivity analysis reconciles to reported ECL. Recommendations on disclosures regarding measurement uncertainty and sensitivities to critical estimates are set out from page 60.

H Regulatory capital

ECL can impact regulatory capital as it impacts retained earnings and other measures used in the regulatory capital framework. Understanding the extent of this impact, particularly that arising from transitional capital rules whose effect will gradually be phased out, can help users understand how future changes in ECL might influence regulatory capital. Recommendations on disclosures regarding the interaction of ECL and regulatory capital are set out from page 68.

- **Governance and oversight**

The complexity of ECL and the extent of the judgements required increases the importance of appropriate governance and oversight of the ECL estimation process. Understanding how this oversight is applied and the particular aspects considered within a bank's governance framework can provide further insight to users on the key aspects they might want to consider and can also help increase confidence in ECL estimates. Recommendations on disclosures regarding the governance framework applied are set out from page 71.

Recommended disclosures, illustrative examples and other guidance material

52 This section includes the recommended disclosures from the second report as amended by this report. See paragraphs 22 to 35 and Appendix II for a summary of these amendments.

53 Banks are expected to exercise judgement in determining the appropriate level of granularity for each disclosure taking into consideration the materiality of the information provided in the context of the overall financial statements, and the considerations noted above from paragraph 39 to 50. The way ECL provisions behave can vary depending on the product, so disclosures that aggregate different products can mask important information. On the other hand, voluminous disclosures can make it difficult to find important information.

54 What is material can depend on context and circumstances. In the illustrative examples the Taskforce has sought to avoid illustrating items that will in all contexts and all circumstances be immaterial, but it recognises that in some contexts and circumstances some of the numbers might be immaterial in which case they should be omitted or aggregated.

55 While examples of specific disclosures are provided to illustrate the application of the recommendations, banks may provide additional disclosures that they consider appropriate to reflect their specific facts and circumstances. Note, the illustrative examples:

- do not always illustrate all aspects of every recommended disclosure. They do not illustrate some recommended disclosures at all and in some other cases they illustrate just some aspects of the disclosure;
- do not necessarily illustrate all aspects of the existing EDTF recommendations or IFRS requirements; and
- do not include comparative information in respect of the preceding period.

A Alignment between accounting for credit losses and credit risk management activities

Risk appetite and credit risk management

Box	*Extracts from relevant guidance*	*Recommended disclosures*
1	An entity shall explain its credit risk management practices. (From IFRS 7.35F) Describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement. Disclosure of a bank's business models[8] is intended to provide users with a description of how it creates, delivers, and captures value. In order to enable users to understand how risk measures relate to line items in the balance sheet and income statement, banks may have to adapt their descriptions to reflect any changes resulting from revisions to accounting requirements. (EDTF recommendation 7[9])	**A.1 Qualitative disclosure explaining whether the risk appetite and risk management strategy have changed as a consequence of the change in timing of reporting credit losses, and if so how (for example, affecting pricing and product strategy).** These disclosures are expected to be more granular and detailed in the first year of application of IFRS 9. In subsequent years, while the key information should continue to be provided, the disclosures are expected to focus on significant changes with respect to previously reported information.

Link between risk appetite/credit risk management and ECL

Box	*Extracts from relevant guidance*	*Recommended disclosures*
2	Banks could consider highlighting how credit practices and policies form the basis for the implementation of the expected credit loss requirements. (EDTF recommendation 5[10]) An entity shall explain how its credit risk management practices relate to the recognition and measurement of expected credit losses. (From IFRS 7.35F)	**A.2 Qualitative disclosure explaining the use of ECL information made by management.** For example the disclosure might explain how ECL estimates and sensitivities are used in credit risk/ business management and, if other metrics are also used, what these are.

[8] The Companies Act 2006 (section 414CB(2)(a)) and the Corporate Governance Code (provisions 1 and 27) require quoted companies to discuss their business model.

[9] November 2015

[10] November 2015

Box	*Extracts from relevant guidance*	*Recommended disclosures*
3	See boxes 1 and 2.	**A.3 Qualitative disclosure explaining how the ECL requirements have been incorporated into the credit risk management practices, if at all.** For example, the disclosure might explain that the ECL requirements have been incorporated into the allocation of economic capital for the disclosure of risk appetite.

B Policies and methodologies

Risk terminology, measures and key parameter values

Box	*Extracts from relevant guidance*	*Recommended disclosures*
4	Define the bank's risk terminology and risk measures and present key parameter values used. It would be helpful to provide users with a description of the key concepts relating to the application of an ECL approach and how the bank interprets and applies these concepts. Material assumptions or estimates under each concept could be highlighted, particularly when there is a considerable level of uncertainty or subjectivity. (EDTF recommendation 2[11])	Refer to the recommendations in boxes 5 to 13 below.

Definition(s) of default and credit-impaired

Box	*Extracts from relevant guidance*	*Recommended disclosures*
5	Information that enables users of financial statements to understand and evaluate an entity's definitions of default, including the reasons for selecting those definitions. (IFRS 7.35F(b)) Information that enables users of financial statements to understand and evaluate how an entity determined that financial assets are credit-impaired. (IFRS 7.35F(d)) The basis of inputs and assumptions and the estimation techniques used to determine whether a financial asset is a credit-impaired financial asset and changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes should also be disclosed. (IFRS 7.35G(a)(iii) and IFRS 7.35G(c))	**B.1 Qualitative disclosure explaining whether there are any differences between the accounting definition of default, the definition used for internal credit risk management purposes and the regulatory definition of default (including that definition's references to factors that indicate an unlikeliness to pay) and where relevant why and how the definitions differ.**

Box	*Extracts from relevant guidance*	*Recommended disclosures*
6	See box 5.	**B.2 Qualitative disclosure explaining to what extent the definition of default aligns to the definition of credit-impaired, highlighting any material differences.**

[11] November 2015

The significant increase in credit risk (SICR) test

Box	*Extracts from relevant guidance*	*Recommended disclosures*
7	Information that enables users of financial statements to understand and evaluate how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition. (IFRS 7.35F(a)) The basis of inputs and assumptions and the estimation techniques used to determine whether the credit risk of financial instruments have increased significantly since initial recognition and changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes should also be disclosed. (IFRS 7.35G(a)(ii) and IFRS 7.35G(c))	**B.3 Qualitative disclosure explaining the policies adopted with respect to staging.** This disclosure should include an explanation of the purpose and effect of staging and the extent to which staging for accounting purposes is aligned with the management of credit risk. The disclosure may include, amongst others, the extent to which macro-economic scenarios have been incorporated into the staging assessment and the use of judgemental adjustments in the staging assessment.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
8	See box 7.	**B.4 Qualitative disclosure explaining the quantitative, qualitative and backstop[12] criteria that have been applied in assessing whether a financial asset is in stage 2, including any 'cure' and/or 'probation' criteria applied for transfers from stages 2 or 3 to stages 1 or 2.**

Low credit risk expedient and use of 30 days past due backstop

Box	*Extracts from relevant guidance*	*Recommended disclosures*
9	Such information shall include if and how the entity has used the low credit risk expedient and if and how the entity has rebutted the presumption that loans that are 30 days past due have suffered a significant increase in credit risk since initial recognition. (IFRS 7.35F(a)(i) and IFRS 7.35F(a)(ii) and (iii))	**B.5 To the extent that the low credit risk expedient has been used to decide whether financial instruments are in stage 1, disclosure explaining where this has been applied and the quantitative and qualitative criteria used to define what 'low credit risk' is.**

[12] The 'backstop' criteria refer to the rebuttable presumption in IFRS 9, paragraph 5.5.11, that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Grouping for the purposes of collective assessments

Box	*Extracts from relevant guidance*	*Recommended disclosures*
10	Information that enables users of financial statements to understand and evaluate how the instruments were grouped if expected credit losses were measured on a collective basis. (IFRS 7.35F(c))	**B.6 Qualitative disclosure explaining the key shared risk characteristics used to group financial instruments together for assessment purposes.**

Write-off policy

Box	*Extracts from relevant guidance*	*Recommended disclosures*
11	Information that enables users of financial statements to understand and evaluate an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity. (IFRS 7.35F(e))	

If the write-off policy is significantly different to peers, significant write-offs can have an effect on the comparability of coverage and other important ratios.

Modifications

Box	*Extracts from relevant guidance*	*Recommended disclosures*
12	Information that enables users of financial statements to understand and evaluate how IFRS 9's requirements for the modification of contractual cash flows of financial assets have been applied, including how an entity: i determines that the credit risk on a financial asset that has been modified at a time when the exposure was judged to be the subject of a significant increase in credit risk since initial recognition has improved to the extent that the exposure is no longer regarded to be the subject of a significant increase in credit risk since initial recognition; and ii monitors the extent to which exposures of the type described in (i) are subsequently judged to be the subject of a significant increase in credit risk since initial recognition. (IFRS 7.35F(f))	

	Banks should consider setting out: • Their policies as to what circumstances should lead to de-recognition of loans as a result of modification of contractual terms and the recognition of new loans; • How forbearance situations are treated under IFRS 9, including, where such exposures are transferred to stage 2, their procedures for transfer of exposures back to stage 1 where the borrower's condition has recovered or problems with the exposure have been cured. This should include any specific criteria defined to determine when to transfer forborne exposures back to stage 1. • An explanation of the circumstances in which forborne exposures are considered credit-impaired and the criteria used to assess whether they are no longer credit-impaired. When specific regulatory pronouncements exist around modifications (for example BCBS or European Banking Authority guidance), the bank could explain how these are reflected in its IFRS 9 approach. (EDTF recommendation 2[13])	

Measuring 12-month and lifetime ECL

Box	*Extracts from relevant guidance*	*Recommended disclosures*
13	The basis of inputs and assumptions and the estimation techniques used to measure the 12-month and lifetime expected credit losses. Any changes and the reasons for those changes should also be disclosed. (IFRS 7.35G(a)(i) and IFRS 7.35G(c)) Banks should consider whether credit quality disclosures can be made that are similar to those used for regulatory capital purposes. (EDTF recommendation 15[14])	**B.7 Quantitative information regarding key parameters of the ECL calculation, presented in a tabular format.** Key parameters are inputs and characteristics of the ECL calculation that the calculation is particularly sensitive to. Examples of such information could include some or all of the following: probability of default (PD) bandings, loan-to-value (LTV) bandings, average 12-month PD, average lifetime PD, weighted average life, average loss given default (LGD) or mappings to internal or external credit ratings. This information provides useful context to a

[13] November 2015

[14] November 2015

		bank's ECL measurement and facilitates comparison between banks.

Judgemental adjustments

Box	*Extracts from relevant guidance*	*Recommended disclosures*
14		**B.8 An explanation, for each material judgemental adjustment made to the modelled ECL, of the reason for the adjustment; how its amount (including increases and decreases through release or otherwise) is determined; the approach used for its estimation; and a description of where the judgemental adjustment has been included in the credit risk disclosures.** **The amount of each material judgemental adjustment should also be disclosed, together with the circumstances in which an adjustment would be utilised or released.** The judgemental adjustments in scope of this recommendation are those that have been made to the ECL estimate outside of the bank's regular modelling process, to change the amounts to reflect management judgements in the estimation of ECL. Changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. Therefore, the pattern of utilisation or release of these adjustments is likely to involve significant management judgement. While the definition of judgemental adjustments does not depend on the stage in the process at which the adjustment is made, such adjustments are commonly, but not exclusively, made as post-model adjustments or overlays. The material judgements supporting these adjustments should be explained and the effect on the ECLs disclosed should be provided in accordance with the DECL Groupings and guidance thereon, as set out in paragraphs 48. To the extent that they are not already included in the economic scenario analyses, it would

		be appropriate to provide information on their sensitivity to the assumptions used where practicable (see recommendation G.4).

It is common for banks to make modelled and unmodelled adjustments to the outputs from the core models when estimating ECL. These adjustments may involve both significant management judgement and estimation uncertainty.

The purpose of this recommendation is to help facilitate a better understanding among users of that element of the ECL that results from judgemental adjustments. In order to provide further standardisation and clarification on the scope of this disclosure recommendation, the following common definitions should be used:

- **Judgemental adjustments** – adjustments to the ECL estimate made outside of the bank's regular modelling process which change the amounts to reflect management judgements. Changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. Therefore, the pattern of utilisation or release of these adjustments is likely to involve significant management judgement. These adjustments are commonly, but not exclusively, made through post-model adjustments or overlays, as defined below:

- **Post-model adjustments – adjustments to the ECL model output, which are usually:**
  - calculated at a granular level through modelled analysis;
  - allocated to provisions at a granular level, so that they are incorporated in credit risk disclosures;
  - calculated separately for each economic scenario; and
  - where appropriate, used to adjust stage allocation outcomes.

- **Overlays –** adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These are likely not to meet the definition of post-model adjustments (for example, they may not be calculated at a granular level through modelled analysis).

Model adjustments which are operational in nature or are made as a result of data limitations are not expected to be captured within the definition of judgemental adjustments, due to the lower level of judgement that they require. These adjustments are also generally not expected to be material. However, if they are, disclosure should be considered under IFRS 7.35G(c).

Adjustments to model inputs or calculations (often called 'in-model adjustments') are not generally expected to fall within the scope of this recommendation, because they typically do not require significant judgement (for example, they are made on a recurring basis and are subject to model and data updates within a model governance framework) and are not expected to be subject to material revisions over the next 12 months.

As in-model adjustments impact the assumptions used for the modelled ECL, it is expected that the associated disclosures will be captured by the existing requirements in IAS 1 and IFRS 7 in respect of modelled ECL[15]. Furthermore, disclosures of the impact of any material in-model adjustments on changes to ECLs from period to period would also be captured by the disclosure requirements of changes to model and risk parameters under recommendation E.2.

However, if in-model adjustments meet the definition of judgemental adjustments as defined above they should be included in the scope of this recommendation.

[15] IAS 1 paragraph 125, 127 and IFRS 7 paragraph 35G

Guidance for disclosures

For each material judgemental adjustment the approach used for its estimation should include at the appropriate level of granularity a description of the exposures impacted, the judgement that has been applied (for example, that a certain risk is not captured by model input data) and a description of how that judgement is applied within the ECL calculation (for example, by uplifting the probability of default, transferring loans to stage 2).

Where it is not practical to present quantitative information on material judgemental adjustments by DECL Groupings, qualitative disclosure can be used to provide information about the impact on the affected DECL Grouping.

If a material judgemental adjustment has not been allocated to DECL Groupings or to any other breakdown of ECL in disclosures, then disclosure of this fact is particularly important to enable users to understand the interaction with other ECL disclosures.

Typically, in the normal course of business most material judgemental adjustments apply to stage 1 and 2 exposures. If a judgemental adjustment has a material impact on stage 3 exposures, then this is expected to be useful information that should be disclosed.

B.8 Example 1 – Quantitative disclosure (includes a split by DECL Groupings)

The disclosure below provides an illustrative example of a quantitative disclosure of judgemental adjustments made in accordance with this recommendation. The disclosure does not include a description of all the judgements required to estimate ECLs.

	31 December 20XX		
	Retail - mortgages**	**Corporate loans****	**Total**
	£m	£m	£m
ECL before judgemental adjustments (A)	**x**	**x**	**x**
Judgemental adjustments			
*Impact of government support measures**	*x*	*x*	*x*
*Adjustment for vulnerable sectors**	*x*	*x*	*x*
*Adjustment to modelled forecast parameters**	*x*	*x*	*x*
Other judgemental adjustments	*x*	*x*	*x*
Total judgemental adjustments (B)	**x**	**x**	**x**
Total reported ECL (A + B)	**x**	**x**	**x**

** The line items included in this example disclosure are for illustrative purposes only, the material judgemental adjustments disclosed for a particular bank would depend on the specific facts and circumstances.*
*** The column headers included in this example disclosure are for illustrative purposes only and are based on an entity that solely operates in the UK where it offers retail mortgages and corporate loans.*

The objective of the table is to quantify management's material judgemental adjustments, identified as part of the bank's relevant governance processes, and illustrate their relevance in the context of the reported ECL. The amount recorded as 'ECL before judgemental adjustments' is the aggregate of the modelled ECL plus any non-judgemental adjustments and enables reconciliation from the 'Judgemental adjustments' to the 'Total reported ECL'. The amount recorded under 'Other judgemental adjustments' includes any judgemental adjustments that may not be individually material but are so on an aggregate basis.

B.8 Example 2 – Qualitative disclosure

Impact of government support measures in response to a specific stress event
One way in which governments and lenders supported borrowers in the current period is through the use of payment holidays. The use of payment holidays is judged to have temporarily reduced the flow of accounts into arrears and default. Management believes that the resulting modelled provisions do not fully reflect the underlying credit risk in the portfolio and deem it necessary to provide for potentially higher future rates of default once the payment holidays mature. At 31 December a post-model adjustment of £xxm was provided for this risk, determined by using probability of defaults last observed in the most recent global financial crisis. This additional provision will be reassessed once payment holidays expire and other government support measures have been withdrawn.

An explanation similar to the above is expected for each material line item, for which it could be explained whether the adjustment is a post-model adjustment, an overlay or an in-model adjustment (where it meets the definition of judgemental adjustment).

Commentary

Illustrative consideration of whether an adjustment would be disclosed if material

Adjustments to modelled forecast parameters

In reviewing ECL for overall adequacy of expected loss recognition, management may take a view that an overlay adjustment should be added to ECL forecast parameters to reflect factors not adequately captured in modelled outcomes, even where models have been adjusted at a more granular level for loan- and portfolio-specific factors. These overlays may arise due to late breaking events for which there is insufficient time to reflect the events in models or in more granular adjustments, or may arise during exceptional economic conditions where the modelling and methodological approaches cannot be adapted at more granular levels to adequately reflect the exceptional conditions.

One approach to this type of adjustment is to recognise an overlay adjustment at a higher level of aggregation than credit risk modelling. The overlay is likely to be based on separate higher level quantitative and qualitative analysis, with reference to available historical events and external benchmarks, and contain a significant management judgemental element.

Why this should be disclosed

- The adjustment reflects a very high degree of management judgement at the reporting date about the effect of late breaking events for which information is limited, or judgements about the overall adequacy of provisioning against modelled outcomes.

- The judgements are made externally to modelled outputs, to consider factors that may not be adequately reflected in the modelling.

- The adjustment is not expected to be made outside the bank's regular modelling process on a recurring basis, and may change materially within the next 12 months as conditions change. It will be monitored and updated prospectively and the pattern of its utilisation or release will involve significant management judgement.

Good practice example

The following extract from the 2021 annual report for Lloyds Banking Group shows a reconciliation between modelled ECL and reported ECL. The Taskforce deemed such a reconciliation to be a useful tool for users to understand the impact of adjustments made to the modelled ECL.

	Modelled ECL £m	Individually assessed £m	Judgements due to COVID-19[1] £m	Other judgements £m	Total ECL £m
At 31 December 2021					
UK mortgages	**292**	**–**	**67**	**478**	**837**
Credit cards	**436**	**–**	**94**	**(9)**	**521**
Other Retail	**801**	**–**	**57**	**50**	**908**
Commercial Banking	**281**	**905**	**161**	**(14)**	**1,333**
Other	**43**	**–**	**400**	**–**	**443**
Total	**1,853**	**905**	**779**	**505**	**4,042**
At 31 December 2020					
UK mortgages	481	–	36	510	1,027
Credit cards	851	–	128	(56)	923
Other Retail	1,209	–	193	43	1,445
Commercial Banking	1,051	1,222	131	(2)	2,402
Other	50	–	400	–	450
Total	3,642	1,222	888	495	6,247

The bank also includes qualitative disclosure (an extract from the 2020 annual report is shown below) on the nature of material adjustments made to the modelled ECL, including an explanation of the circumstances under which the adjustment may be unwound and timeframe for such an event.

Other: £400 million

Central overlay in respect of economic uncertainty: £400 million

An important element of the methodology used to calculate the Group's ECL allowance is the determination of a base case economic scenario, predicated on certain conditioning assumptions, from which alternative scenarios are derived using stochastic shocks. The rapid evolution of the pandemic and significant changes that this has brought about could continue into 2021 and may partially invalidate the conditioning assumptions that underpin the Group's base case scenario. Management believes that the risks to the conditioning assumptions around the base case scenario are markedly to the downside, reflecting notably the potential for a material delay in the vaccination programme or reduction in its effectiveness from further virus mutation and the corresponding delayed withdrawal of restrictions on social interaction or introduction of further lockdowns. The Group's ECL allowances are required to reflect an unbiased probability-weighted view of all possible future outcomes and therefore management believes that an adjustment is required to capture these additional risks.

An adjustment of £400 million has been made to increase the Group's ECL allowances to reflect this increased uncertainty around the conditioning assumptions. This equates to a 1 percentage point increase in unemployment allied with a 5 per cent lower HPI in 2021, reflecting a more immediate and therefore greater ECL impact than the gradual increase reflected in the stated univariate sensitivity. It is proportionate to the level of volatility seen in forecasts as the pandemic has unfolded and is also equivalent to a 10 per cent re-weighting from the upside to the severe downside scenario. The adjustment, which has not been allocated to a specific portfolio, has been allocated against Stage 1 assets given the downside risks are largely considered to relate to exposures with currently low default probabilities, the majority of which are in Stage 1. Through 2021 the scale of the uncertainty is expected to diminish and the need for this adjustment will then be reassessed.

C Forward-looking information

The recommendations set out in this section are expressed in the language that tends to be used by banks whose ECL approaches incorporate discrete scenario forecasts. The Taskforce envisages that banks using Monte Carlo approaches will make the recommended disclosures to the extent that this is practicable and, where it is not, will provide disclosures that endeavour to meet the same disclosure objective as the recommended disclosure.

Description of how scenarios are chosen and weighted and how ECL outcomes are linked to those scenarios

Box	*Extracts from relevant guidance*	*Recommended disclosures*
15	How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macro-economic information. Any changes and the reasons for those changes should also be disclosed. (IFRS 7.35G(b) and IFRS 7.35G(c))	**C.1 Qualitative disclosure explaining how forecasts of future economic conditions are determined as inputs to the measurement of ECL.** This explanation should include a description of how multiple economic scenarios are put into effect for both individual and collective assessments and different types of loans (for example retail, wholesale).

This disclosure helps provide context for the more detailed disclosures about multiple economic scenarios and sensitivity analysis that follow. It is useful to have a high-level understanding about the sources of economic forecasts and how they have been applied to key portfolios so that key differences between banks, and any changes from the comparative period presented, can be identified and understood. For example, it helps a user understand why there might be differences in ECL outcome of different banks or be in a more informed position to ask questions when there is not a significant difference in outcomes between two banks that might be expected given their differences in future macro-economic inputs.

Commentary

This disclosure should:

- Include a brief statement of how economic forecasts are determined including, if used, defining what is meant by ‘consensus’ forecasts.
- Where relevant, explain how the bank applies forecasts differently to individually and collectively assessed exposures and different types of portfolios.
- Explain whether there are any portfolios/stages where economic forecasts have little impact on the measurement of ECL (e.g. for short term portfolios or stage 3 assets historically insensitive to changes in macro-economics) where appropriate and why.
- Highlight any changes in the basis of forecasting from previous reporting periods and any differences from common industry practice (e.g. where consensus forecasts are not being used).

Box	*Extracts from relevant guidance*	*Recommended disclosures*
16	See box 15.	**C.2 Qualitative disclosure explaining how representative ECL outcomes are selected from a range of possible outcomes to ensure an unbiased estimate of ECL.** This disclosure should include explanations of: (a) how alternative economic assumptions (for example, scenarios) are selected, (b) what assumptions are made in relation to time periods beyond the forecast horizon used internally for planning and the basis on which those assumptions have been made, (c) how scenario weightings are determined, and (d) how material non-linear relationships between economic factors and credit losses are reflected in the estimate. To avoid any misunderstandings, the disclosure should make it clear that the purpose of using multiple scenarios is to model the non-linear impact of assumptions about macro-economic factors on ECL and that any presented ECL outcomes for different economic scenarios do not represent ECL forecasts.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
17	See box 15.	**C.3 Where an approach based on discrete scenarios is used, tabular disclosure of the weightings assigned to each scenario together with an explanation of any changes in scenario weightings from the comparative period presented.** **For banks using a Monte Carlo approach, a disclosure explaining how the Monte Carlo approach has been used and period-on-period changes in its use. These explanations should be accompanied, where appropriate,**

		by quantitative data. Information about the scenarios used (see C.4), the weightings attached to those scenarios and therefore the broad shape and position of the 'distribution curve' implied helps to provide context for comparing ECL against the comparative period presented. Weightings and scenarios need to be viewed in conjunction with each other; if viewed in isolation it is possible to draw inappropriate conclusions about the resulting ECL figures.

It is helpful to combine quantitative disclosure of the weightings assigned to each scenario with that of Recommendation C.4.

Key parameters used in the central scenario and alternative scenarios

Box	*Extracts from relevant guidance*	*Recommended disclosures*
18	See box 15.	**C.4 Qualitative and quantitative disclosure describing the key parameters of the central scenario.** **Quantitative information about alternative scenarios or adjustments for uncertainty including descriptions of the characteristics of the range of alternative scenarios or the scalar adjustments used to adjust the central scenario.** Given the impact of the central scenario on the overall ECL number, the key parameters within the central scenario should be described in a level of detail that reflects its relative importance, in the tabular format provided in C.3, C.4(a) and (c) Example 1. (The alternative scenarios are normally derived by modifying the central scenario.) The information provided should be designed amongst other things to help users understand the assumptions made as to how the key parameters change over the forecast period. (a) To illustrate the expected period-on-period evolution of the macroeconomic assumptions

		used for scenario modelling, quantitative disclosure should be provided of the values of such inputs and assumptions across the forecast period. Banks should disclose, in tabular form, the annual average value of each key input for the central scenario for each year of the forecast period (e.g. each year for a 5-year forecast period) and the cumulative expected growth or fall of each of the inputs from the reporting date to the forecast peak or trough during that same forecast period. (b) To help users of the financial statements understand the trend of the inputs over the forecast period and allow a visualisation in a concise and effective way, banks should also consider using graphs to show how the inputs are expected to change over the forecast period. This would illustrate when any peaks or troughs are assumed to occur and how values are assumed to revert to a long-term rate. This could be particularly useful when there is more than one peak and/or trough forecast in any scenario. While it may be sufficient to provide a graph for only one macroeconomic assumption, such as GDP, to illustrate the overall shape of the scenario, to the extent that other macroeconomic assumptions are expected to behave differently and not follow the overall shape, it may be appropriate to provide additional graphs. Additionally, in order to help users assess the forecasts in the context of the economic cycle, the inclusion of recent historical actuals in the graph may also be considered helpful information. (c) Disclosure should also be provided of the length of the forecast period and the period over which the inputs are assumed to transition to a long-term rate. (d) A description should also be

		provided of the assumptions made in relation to the long-term behaviour of the key parameters, such as reversion to long-term averages or other if applicable. If the long-term rate differs from the historical long-term mean for any of the assumptions, this should be disclosed and qualitative information should be provided to explain the methodology that has been applied to estimate the rate.

The central economic scenario is key to the ECL measurement. Information about the forward-looking macro-economic assumptions used in the central scenario helps users understand more about the basis for the amount of ECL and reasons for changes in ECL due to changes in key macro-economic variables (also see C.5). The disclosure is also relevant to informing the sensitivity analysis described in section G.

Users need an understanding of the shape of the macro-economic forecasts and the basis for that shape to understand the possible consequences. For example, a forecast deep trough followed by a rebound is likely to give rise to bigger losses than a shallow dip, while a forecast trough in the near future will typically have a more severe ECL impact than one a few years further out. If only average macro-economic data is disclosed this curve shape will not be apparent.

In estimating ECL, forward-looking information covering the whole of the expected life of the credit exposure will need to be taken into account. For longer-dated portfolios (e.g. credit cards, mortgages and some commercial loans), that period will extend beyond the forecast period and will comprise 'the transition period' and the 'post-transition period'. For example, if a bank uses mean reversion techniques,

- during the post-transition period the forward-looking information may be derived from long-term averages, and
- during the transition period, the forecast period assumptions will transition to those long-term average-based assumptions. In some cases, this transition will be immediate, in which case there will in effect be no transition period.

To understand the forward-looking assumptions that have been made, the disclosures will need to cover all these periods.

In most cases, the central scenario's impact on the ECL number will be far greater than the incremental impact of the alternative scenarios. As a result, there will usually be more information disclosed about the central scenario than the alternative scenarios. Nevertheless, disclosures about the alternative scenarios and adjustments used by management provide important context for understanding and assessing sensitivity analyses so sufficient information will be disclosed about each of the alternative scenarios for users to understand:

- how many scenarios have been used,
- what weightings have those scenarios been given,
- what are the key parameters of each scenario, and
- any significant changes since the previous period and the reason for those changes.

Where adjustments to the central scenario are used rather than alternative scenarios, the aim should be to provide equivalent information (for example the economic factors taken into account, how they have been weighted and how they compare to the prior period's adjustments).

Users may find data about the shape of the curves for alternative scenarios useful, particularly if presented graphically, as this shows very clearly the shape and speed of reversion assumed in the alternative scenarios which may have a significant impact on ECL. Omitting this additional information reduces the insight which can be gained from the alternative scenarios.
The quantitative information about the key parameters/economic assumptions used for the alternative scenarios can be combined with information about the central scenario and the scenario weighting applied to each scenario (C.3), as in the illustrative examples below (C.3, C.4(a) and (c) Example 1).

C.3, C.4(a) and (c) Example 1 – Quantitative information: example of a table showing macro-economic assumptions and illustrating the evolution of the macro-economic variables throughout the forecast period for the central scenario, upside and downside scenario(s).

Scenario weightings

	Upside	Base case	Downside	Severe downside
20XX	10%	35%	30%	25%
20XX	5%	20%	35%	40%

The key UK economic assumptions made by the Group over its forecast period are shown below.

Annual average value of key inputs for the central scenario for each year of the forecast period

As at 31 December 20XX	**20XX %**	**20XX %**	**20XX %**	**20XX %**	**20XX %**
Upside					
Gross domestic product	(10.5)	3.7	5.7	1.7	1.5
UK Bank Rate	0.10	1.14	1.27	1.20	1.21
Unemployment rate	4.3	5.4	5.4	5.0	4.5
House price growth	6.3	(1.4)	5.2	6.0	5.0
Commercial real estate price growth	(4.6)	9.3	3.9	2.1	0.3
Base case					
Gross domestic product	(10.5)	3.0	6.0	1.7	1.4
UK Bank Rate	0.10	0.10	0.10	0.21	0.25
Unemployment rate	4.5	6.8	6.8	6.1	5.5
House price growth	5.9	(3.8)	0.5	1.5	1.5
Commercial real estate price growth	(7.0)	(1.7)	1.6	1.1	0.6
Downside					
Gross domestic product	(10.6)	1.7	5.1	1.4	1.4
UK Bank Rate	0.10	0.06	0.02	0.02	0.03
Unemployment rate	4.6	7.9	8.4	7.8	7.0
House price growth	5.6	(8.4)	(6.5)	(4.7)	(3.0)
Commercial real estate price growth	(8.7)	(10.6)	(3.2)	(0.8)	(0.80
Severe downside					
Gross domestic product	(10.8)	0.3	4.8	1.3	1.2
UK Bank Rate	0.10	0.00	0.00	0.01	0.01
Unemployment rate	4.8	9.9	10.7	9.8	8.7
House price growth	5.3	(11.1)	(12.5)	(10.7)	(7.6)
Commercial real estate price growth	(11.0)	(21.4)	(9.8)	(3.9)	(0.8)

Cumulative expected growth and fall of key inputs from the reporting date to the forecast peak and forecast trough during the forecast period

	31 December 20XX			
	Upside %	**Base case %**	**Downside %**	**Severe downside %**
Economic assumptions – start to peak				
Gross domestic product	1.4	0.8	(1.7)	(3.0)
UK Bank Rate	1.44	0.25	0.10	0.10

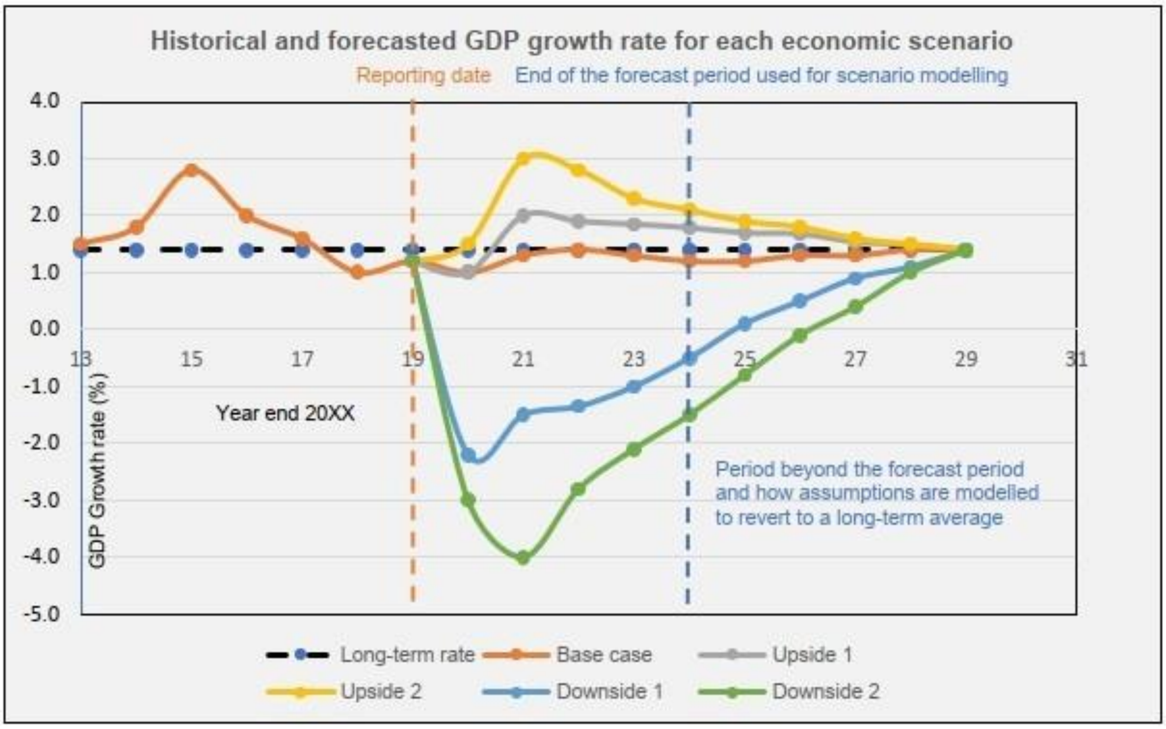
Unemployment rate	6.5	8.0	9.3	11.5
House price growth	22.6	5.9	5.6	5.3
Commercial real estate price growth	11.0	(2.7)	(2.7)	(2.7)
Economic assumptions – start to trough				
Gross domestic product	(16.4)	(16.5)	(21.2)	(21.2)
UK Bank Rate	0.10	0.10	0.01	0.00
Unemployment rate	(0.5)	(0.4)	(0.2)	(0.1)
House price growth	(0.5)	(0.5)	(16.4)	(32.4)
Commercial real estate price growth	(6.9)	(9.0)	(22.2)	(39.9)

Commentary

- This disclosure should provide information on the key parameters for which the effect of the parameter is considered to be material to the overall ECL. The level of detail should be proportionate to the significance of macro-economic factors in driving ECL (e.g. if the disclosure is provided separately by geographical area, the level of detail provided for the areas that contribute less to the overall ECL may be lower than for the others).

- The disclosures given in respect of macro-economic variable inputs should state how the variables are being quoted (e.g. absolute, percentages or percentage change) and all parameters should be defined as specifically as possible (e.g. 'Bank of England base rate' instead of 'interest rate').

C.4(b) Example 2 – Quantitative information: example of a graph showing the evolution of the historical and forecast growth rates for the GDP assumptions used for scenario modelling.



Recommendation C.4(b) refers to the need to help users of the financial statements understand the trend of the inputs over the forecast period. The disclosure should describe at a high-level the assumed central economic scenario over the stated forecast period for each of the key parameters (which may commonly include GDP, unemployment, house prices, interest rates) and should explain the reasons for movements over the forecast period. For example:

> *For the central scenario, UK GDP growth is forecast to remain subdued in the next two years, reflecting ongoing economic and political uncertainty followed by moderate GDP growth for the following 3 years as conditions normalise.*

Taking into account materiality, this disclosure may need to be provided separately for specific geographical areas in which the bank operates. Alternatively, as Recommendation C.4(b) mentions, the disclosure could be provided in the form of a graph "to allow a visualisation in a concise and effective way". This is illustrated in example 2 above. GDP provides an indicator of the macro-economic landscape generally, so it may be sufficient to provide a graph for GDP only to illustrate the overall shape of the scenario. The same might be true for other macro-economic assumptions.

Whilst the shape of the scenarios is expected to influence ECLs, there are other factors that may be useful to disclose e.g. maturities and obligor specific factors.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
19	See box 15.	**C.5 Qualitative information on significant changes in the central scenario compared to the previous period, with explanations of the reasons for those changes.**

Understanding significant changes in the basis for the forecasts helps users understand a potentially key driver of movements in ECL and management's changing view on the most appropriate and reliable source of forecasts.

Commentary

The disclosure is necessary only if there have been significant developments or changes in the basis for the forecasts or other methodological changes. For example, if a bank previously used consensus forecasts without adjustment, but no longer does so.

Significant movements in the quantitative central scenario macro-economic assumptions given in C.4 compared with the comparative period should also be explained.

Information also needs to be provided to confirm there has been no change in assumptions or to show what changes have occurred.

[The next recommendation is C.7]

Impact of using multiple scenarios

Box	*Extracts from relevant guidance*	*Recommended disclosures*
20	See box 15.	**C.7 Quantitative disclosure of the ECL that would result using only the central scenario assumptions, by material portfolio.**

Providing information about what the ECL number would have been had it been based exclusively on the central scenario enables the impact of using multiple scenarios (or adjustments to the central scenario) to be seen.

Commentary

Quantitative disclosure of the ECL that would result using only the central scenario is typically disclosed as part of a bank's sensitivity disclosures, alongside disclosure of the effect on ECLs resulting from applying a 100% weighting to alternative scenarios. (See Recommendation G.4 Example 1.)

Good practice examples

<u>Recommendation C.4</u>

The following extract from the 2021 annual report for Santander UK shows disclosure of the weightings assigned to forward-looking economic scenario for both the current period and the previous reporting period. The Taskforce noted that this enabled users to clearly understand how weightings have changed over periods – this was noted to be particularly valuable where the macro-economic outlook changed significantly between reporting periods

Scenario weights

Given the change to the base case in Q4 2021, we undertook a full review of the probability weights applied to all the scenarios. The setting of probability weights needs to consider both the probability of the economic scenarios occurring while ensuring that the scenarios capture the non-linear distribution of losses across a reasonable range. To support the initial assessment of how likely a scenario is to occur, we typically undertake a Monte Carlo analysis which would ascertain the likelihood of a five-year average GDP forecast growth rate occurring based on the long run historically observed average. Creating a standard distribution bell curve around this long run average allows us to estimate the probability of a given GDP scenario occurring and therefore assign a probability weight to that scenario. However, a key challenge with this approach in a stressed environment like the one seen in 2020 is that extreme GDP forecasts occur.

Due to the extreme falls in growth, in 2020 we changed the time period that we looked at for the Monte Carlo analysis to 2007-2012 in order to capture the very low period of growth, similar to those seen in 2020. However, this time period is no longer appropriate as the economy recovers resulting in large upswings in growth. As such, we have assessed various periods of growth, similar to the action we took in 2020, and the most relevant period would be to include the entire data set given that the number of growth periods since 1948 far outweighs the downswings. In this case, the base case sits at the 10th percentile with such a growth rate occurring, historically, nearly half the time (43%) implying that a weight of between 40-50% remains appropriate. Under the longer period, the Downside 3 scenario now sits in the 50th percentile since the number of significant quarterly growth periods is increasing as we move through 2021. However, this still suggests that a low weight remains appropriate.

We also need to consider the UK economic and political environment when applying weights. Although the economic recovery has started, it is clear that the roadmap will need to be altered in order to deal with any increasing infection rates caused by new variants, particularly as they are appearing regularly and vaccines may need to evolve further to deal with potential resistance to them. As such, we remain of the view that the risks are still biased to the downside and include: emergence of further variants that are resistant to existing vaccines leading to further lockdowns - at present the Omicron variant is an example of where uncertainty is affecting the UK economy via self-imposed restrictions as well as those mandated by the UK Government; a substantial increase in inflation; continuing weak investment; a larger negative impact from the EU trade deal than assumed; and the increasing possibility of a second Scottish referendum which may bring disruption to any recovery in the latter years of the forecast. As such, it remains appropriate to reflect this with a 50% weight for the downside scenarios.

The scenario weights we applied for 2021 and 2020 were:

Scenario weights	Upside 1 %	Base case %	Downside 1 %	Downside 2 %	Downside 3 %
2021	**5**	**45**	**25**	**20**	**5**

Scenario weights	Upside 1 %	Base case %	Downside 1 %	Downside 2 %	Downside 3 %
2020	5	45	15	25	10

The extract below is from the 2021 annual report for Standard Chartered and explains the Monte Carlo approach to scenario setting:

To assess the range of possible outcomes the Group simulates a set of 50 scenarios around the Base Forecast, calculates the ECL under each of them and assigns an equal weight of 2 per cent to each scenario outcome. These scenarios are generated by a Monte Carlo simulation, which addresses the challenges of crafting many realistic alternative scenarios in

the many countries in which the Group operates by means of a model, which produces these alternative scenarios while considering the degree of historical uncertainty (or volatility) observed from Q1 1990 to Q3 2020 around economic outcomes and how these outcomes have tended to move in relation to one another (or correlation). This naturally means that each of the 50 scenarios do not have a specific narrative, although collectively they explore a range of hypothetical alternative outcomes for the global economy, including scenarios that turn out better than expected and scenarios that amplify anticipated stresses.

In addition, the following extract from the 2020/21 annual report for Nationwide Building Society was identified as an example of good practice as it clearly discloses the economic variables across the forward-looking economic scenarios.

Economic variables

	Rate/annual growth rate at December 2021-2026						5-year average (note i)	Dec-21 to peak (notes ii and iii)	Dec-21 to trough (notes ii and iii)
	Actual	Forecast							
	2021	2022	2023	2024	2025	2026			
4 April 2022	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	8.3	4.2	2.5	2.0	2.0	2.0	2.5	13.4	1.5
Base case scenario	8.3	2.3	1.7	1.5	1.4	1.4	1.7	8.6	0.7
Downside scenario	8.3	2.5	(3.9)	1.7	2.2	2.2	0.9	4.6	(1.5)
Severe downside scenario	8.3	(4.5)	2.6	2.0	1.9	1.6	0.7	3.6	(4.5)
HPI growth									
Upside scenario	10.6	6.1	3.7	4.0	3.8	3.8	4.3	23.2	2.0
Base case scenario	10.6	3.5	2.4	2.8	3.2	3.2	3.1	16.2	1.5
Downside scenario	10.6	1.5	(10.6)	(8.4)	5.6	5.0	(1.6)	2.0	(16.9)
Severe downside scenario	10.6	(1.8)	(23.6)	(5.5)	3.7	7.7	(4.6)	1.2	(29.2)
Unemployment									
Upside scenario	4.1	3.5	3.6	3.9	3.9	3.9	3.8	3.9	3.5
Base case scenario	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.0
Downside scenario	4.1	4.7	6.9	5.3	5.0	4.9	5.3	7.0	3.6
Severe downside scenario	4.1	9.4	8.2	6.2	5.5	5.3	6.7	10.0	4.1
Consumer price inflation									
Upside scenario	5.4	5.0	1.6	1.9	2.0	2.0	2.9	7.5	1.3
Base case scenario	5.4	5.0	1.8	1.7	2.0	2.0	2.9	7.5	1.6
Downside scenario	5.4	10.0	1.0	0.3	0.3	1.2	3.1	10.0	0.3
Severe downside scenario	5.4	3.0	(0.2)	0.0	0.0	0.1	1.2	7.0	(0.4)

Recommendation C.5

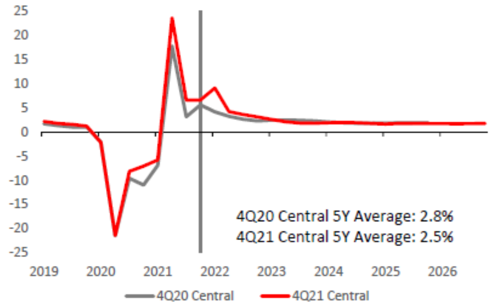
The Taskforce noted that for this recommendation, disclosure of annual averages for the key economic inputs was more useful than an average over the forecast period. The extract below is from the HSBC Holdings Plc 2021 annual report and provides annual averages in a tabular format, allowing users to clearly understand year on year changes, accompanied by a chart showing the GDP path used in the central scenario and for the current and prior year. The Taskforce noted that providing charts or graphs to support the tabular information was useful.

Central scenario 2022–2026

	UK %	US %	Hong Kong %	Mainland China %	Canada %	France %	UAE %	Mexico %
GDP growth rate								
2022: Annual average growth rate	5.0	4.0	3.1	5.3	4.1	3.9	4.4	2.9
2023: Annual average growth rate	2.1	2.4	2.9	5.4	2.8	2.1	3.4	2.3
2024: Annual average growth rate	1.9	2.1	2.6	5.1	2.0	1.6	3.0	2.2
5-year average	2.5	2.5	2.7	5.1	2.5	2.1	3.2	2.3
Unemployment rate								
2022: Annual average rate	4.5	4.2	4.1	3.8	6.3	8.0	3.1	4.0
2023: Annual average rate	4.3	3.8	3.6	3.7	5.9	7.7	3.0	3.9
2024: Annual average rate	4.2	3.8	3.5	3.8	5.8	7.6	2.9	3.8
5-year average	4.3	3.8	3.6	3.8	5.9	7.7	3.0	3.8
House price growth								
2022: Annual average growth rate	5.5	10.3	3.4	0.3	6.4	4.9	4.9	5.8
2023: Annual average growth rate	3.3	5.4	2.4	4.7	2.8	4.6	–	5.0
2024: Annual average growth rate	3.3	3.7	2.0	4.9	2.1	4.0	2.1	4.4
5-year average	3.5	5.4	2.6	3.5	3.3	3.9	2.7	4.7
Short-term interest rate								
2022: Annual average rate	1.0	0.5	0.5	3.1	1.1	(0.5)	1.1	7.2
2023: Annual average rate	1.3	1.1	1.1	3.2	2.0	(0.3)	1.7	8.1
2024: Annual average rate	1.2	1.5	1.6	3.4	2.2	(0.1)	2.2	8.0
5-year average	1.2	1.3	1.4	3.4	1.9	(0.2)	2.0	7.9
Probability	60	75	70	80	75	60	70	65

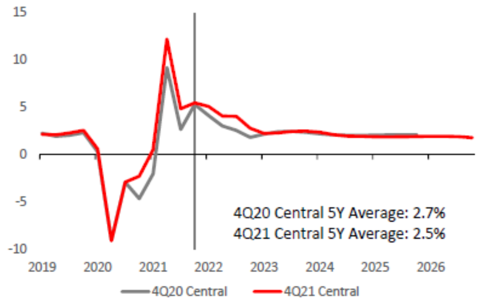
GDP growth: Comparison

UK



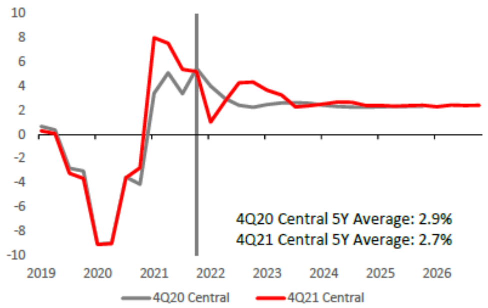
Note: Real GDP shown as year-on-year percentage change.

US



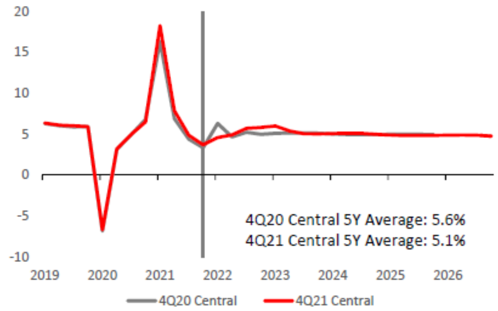
Note: Real GDP shown as year-on-year percentage change.

Hong Kong



Note: Real GDP shown as year-on-year percentage change.

Mainland China



Note: Real GDP shown as year-on-year percentage change.

D Movement and coverage across stages

Movements in amounts reported including changes in the balance sheet ECL estimate

Box	*Extracts from relevant guidance*	*Recommended disclosures*
21	To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for: (a) the loss allowance measured at an amount equal to 12-month expected credit losses; (b) the loss allowance measured at an amount equal to lifetime expected credit losses for i. financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets; ii. financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and iii. trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9. (c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period. (IFRS 7.35H) To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed	**D.1 A single table comprising the quantitative information required by IFRS 7.35H and IFRS 7.35I and containing reconciliations of opening to closing balances of:** **(a) the loss allowance, and** **(b) gross carrying value,** **including the effect of modifications.** **Qualitative disclosure explaining the movements of gross balances and loss allowance between stages in the reporting period.** The numbers disclosed for the purpose of complying with IFRS 7.35I are expected to vary depending on whether the table is the aggregate of tables prepared on a more frequent basis or is calculated by reference to opening and closing balances for the reporting period, so the frequency of measurement for purposes of compiling the table should be disclosed. Information should be disclosed that helps the reader to understand what have been the main factors that have caused amounts reported in each stage to change. For example, it might just be that the book has increased in size, causing no real change in the proportion of the book in each stage but a change in the absolute amounts. On the other hand, there might have been changes in credit risk and those changes might have been driven by changes in the economic outlook that have caused a particular aspect of the SICR criteria to be triggered. If that is the case, the disclosure should be designed to help the reader understand the significance of those drivers.

	to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include: (a) changes because of financial instruments originated or acquired during the reporting period; (b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IFRS 9; (c) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and (d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses. (IFRS 7.35I) To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses by disclosing (a) the amortised cost before the modification and the net modification gain or loss recognised for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and (b) the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month	These explanations of the reasons for material movements between stages should include a quantification of the associated ECL impact. The explanations should also include identification of IFRS 7 classes of financial assets where material movements were identified, where applicable, and explanations for the change in risk. This could include information around probabilities of default (PDs) before and after the change in risk. Quantitative information showing the extent to which movements are due to quantitative, qualitative, or backstop criteria, and other factors might be disclosed if it is available. The numbers disclosed are expected to vary depending on whether movements are determined by comparing opening and closing balance sheets or are the result of aggregating movement tables for shorter (say quarterly) periods. They are also expected to vary depending on the order in which the quantitative, qualitative and backstop criteria have been applied. For those reasons, if this quantitative disclosure is provided, an explanation of how the numbers have been compiled should also be disclosed. Quantitative information showing the reasons why instruments are in stage 2 as at the balance sheet date should be provided as per F.5. Where there has been a significant year-on-year change in the amounts that are in stage 2 for any particular reason, an explanation of the reasons for that change should be provided. The disclosure should include quantitative information that illustrates the impact of significant factors. For example, if a material asset class were to move from stage 1 into stage 2, it would be helpful to identify the asset class, the gross exposure amount and

	expected credit losses. (IFRS 7.35J) Where models are used for determining expected credit losses, there may be a lack of clarity between model changes and changes to credit risk parameters. Users have indicated they would like to see more information from banks about the quantitative impact that changes to models and risk parameters have on their reported numbers. A risk parameter is an input to a credit risk model. Examples include macro-economic conditions such as interest rates, the arrears status of a loan or overdraft usage. These parameters will change from period to period, and will result in changes in modelled ECL. In contrast model changes are expected to be less frequent. (EDTF recommendation 28[16])	associated ECL impact involved, and explain the reason for the move.

Commentary

- The way the ECL provision behaves can be affected significantly by product and geography. Information contained in this Recommendation could be provided in accordance with the DECL Groupings and guidance thereon in paragraph 48, as well as at an entity-wide level.

- Likewise, discussion of movements between stages in the reporting period, including reasons and key drivers for the movements, could be provided in accordance with the DECL Groupings and guidance thereon, in paragraph 48. For example:

  A rise in UK unemployment caused an increase in movements from stage 1 to stage 2 for UK retail mortgage loans; a significant increase in credit impaired UK corporate loans arose due to the collapse of a major UK corporate.

- The reconciliations of movements of the loss allowance and gross carrying amounts and the factors causing these changes by stage are key to understanding the drivers of movements in ECL and the charge to the income statement.

- Using the same line item descriptions with the same meanings across banks aids comparability although, given the variety of possible methods of completing this disclosure, the reconciliations may not be immediately comparable across banks. The key elements of the basis of preparation underlying the reconciliation should be disclosed to help users to compare the movements across different banks.

[16] November 2015

D.1 and E.2 Example 1 – Reconciliation of changes in gross carrying amount and ECL allowance for UK retail mortgage loans to customers

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
At 1 Jan 20XX	**561,510**	**398**	**31,368**	**944**	**16,105**	**5,418**	**608,983**	**6,760**
Transfers from stage 1 to stage 2	(27,992)	(84)	27,992	84	-	-	-	-
Transfers from stage 2 to stage 1[1]	20,859	246	(20,859)	(246)	-	-	-	-
Transfers to stage 3[1]	(1,832)	(5)	(2,792)	(164)	4,624	169	-	-
Transfers from stage 3[1]	1,933	5	2,314	248	(4,247)	(253)	-	-
Net remeasurement of ECL on stage transfer[2]		(214)		275		379		**440**
Changes in risk parameters – credit quality[3]		51		112		55		**218**
Changes to ECL model[3]		5		23		1		**29**
Net new and further lending/repayments	9,594	44	(10,208)	(107)	(2,482)	(129)	**(3,096)**	**(192)**
Other ECL movements included in P&L		7		19		-		**26**
Assets written off	(5)	(5)	(15)	(15)	(2,224)	(2,224)	**(2,244)**	**(2,244)**
Foreign exchange	8,423	6	470	14	241	81	**9,134**	**101**
Other ECL movements	(589)	(3)	(32)	(1)	(2)	57	**(623)**	**53**
As at 31 December 20XX[4]	**571,901**	**451**	**28,238**	**1,186**	**12,015**	**3,554**	**612,154**	**5,191**
Income statement ECL charge / (release)[5]		(107)		322		306		**521**
Recoveries of amounts previously written off		-		-		(77)		**(77)**
Total credit impairment charge / (release)		**(107)**		**322**		**229**		**444**

[1]Footnote or other narrative to explain the basis for determining the value of transfers between stages, including the frequency of measuring movements (e.g. quarterly or annually). For example: Transfers between stages capture the net movement in financial assets that are in a different stage at the closing balance sheet from that at the opening balance sheet. The transfers between each stage are based on opening balances and ECL at the start of the period.

[2]The net remeasurement of ECL on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date ECL movement on net assets transferred into a particular stage. This is not a subtotal of the 'transfers from' and 'transfers to' rows that precede this row.

[3]Footnote or other narrative to explain the basis on which amounts attributable to changes in risk parameters and risk models were calculated. Where it is not possible to isolate the impact of these changes further narrative explanation can be given instead of inclusion as separate line items in the reconciliation.

[4]Balance at 31 December 20XX comprises the opening balance at 1 January 20XX and the sum of: Transfers from and to stages; net remeasurement of ECL on stage transfer; changes in risk parameters – credit quality; changes to ECL model; net new and further lending/repayments; assets written off; foreign exchange; and other.

[6]This number is the sum of the boxed amounts above.

Commentary

- The format illustrated in D.1 and E.2 Example 1 above might need tailoring. For example, the line item 'Other' for material items may be expanded as appropriate (e.g. material modifications) and additional columns could be included in the reconciliation table for material purchased or originated credit-impaired (POCI) financial assets. Separate line items need not be given for immaterial items, although significant amounts of 'Other' items should be explained and/or analysed further. In the table, the discount unwind is immaterial and therefore included as part of 'Other' but, where it becomes material, it would be useful and relevant for users for the 'discount unwind' to be disclosed separately.

- If separate tables are presented for drawn and undrawn balances, the tables would be expected to require an additional line item immediately above 'Other' showing material transfers to/from undrawn from/to drawn as the loan commitment is repaid/drawn down. Please refer to the guidance in paragraph 48 over the presentation of drawn and undrawn balances.

- Where possible, changes in ECL during the period due to changes in risk parameters should be presented as a separate line item to changes in ECL due to methodology and model changes. The disclosure should clearly explain the basis for each line item. However, given that such changes may be pervasive across several line items in the reconciliation, including transfers between stages, information about their impact on ECL by stage may be given outside the reconciliation. Instead, for example, a separate table could be given to aggregate all changes in ECL due to model changes (including those within transfers between stages). Alternatively, this information could be given through qualitative disclosures.

- Increases or decreases in the impairment charge could arise from changes to the methodologies and models used for ECL calculations. Any consequential impact on ECL (either at the date of the model change or possible changes to ECL in future periods) is not due to changes in credit quality. Qualitative disclosures should explain any material methodology and model changes, together with the impact on ECL.

- Changes in risk parameters are changes in assumption (model) inputs arising from changes in the credit quality of the financial instruments and therefore exclude methodology and model changes. Changes in risk parameters include changes to forecast economic variables for each scenario, changes to the scenarios, and changes in the scenario weights. Changes in risk parameters that result in a transfer between stages, are included in the remeasurement on transfers between stages.

- The basis for each line item should be clear and additional explanation provided where appropriate.

- The frequency and basis for compiling the data in the reconciliations, including the measurement of transfers between stages, should be disclosed (e.g. whether movements in staging are compiled on a monthly, quarterly or annual basis and how the remeasurement amount has been determined and included in the table).

- For judgemental adjustments the reconciliation may cross-refer to the disclosures made under recommendation B.8 explaining the judgemental adjustments. Qualitative disclosures accompanying the reconciliation table should explain in which line items or stages material judgemental adjustments are presented, or in case it was not possible to allocate certain material judgemental adjustments to specific line items or stages then a disclosure to this effect is useful. In that case such amounts could be added in a separate column or a separate line item.

Coverage (i.e. ECL expressed as a percentage of the corresponding gross exposure)

Box	*Extracts from relevant guidance*	*Recommended disclosures*
22		**D.2 Quantitative disclosure of ECL coverage in accordance with the DECL Groupings and guidance thereon, as set out in paragraph 48, as part of the credit risk exposure disclosures required by IFRS 7.35M (see F.1).**

Coverage information helps users to compare ECL levels within and across banks. Aggregated coverage information can however be significantly affected by product mix. Coverage information should be provided in accordance with the DECL Groupings and guidance thereon, as set out in paragraph 48.

Commentary

- ECL coverage is addressed as part of the credit risk exposure information in Recommendation F.1.
- To aid comparability between banks' disclosures, banks should consider calculating coverage ratios based on drawn ECL divided by drawn gross balance. Where undrawn amounts are material, coverage could be presented separately for both drawn and undrawn amounts.
- The method by which the coverage ratio has been calculated should be disclosed.

[The next recommendation is E.2]

E Changes in the balance sheet ECL estimate

Box	*Extracts from relevant guidance*	*Recommended disclosures*
23	See box 21.	**E.2 Disclosure in the reconciliation of the movements between the opening and closing balance of the loss allowance of:** **(a) the income statement charge for the period; and** **(b) the movements in ECL that are not caused by movements in gross carrying amount, separately identifying amounts attributable to changes in risk parameters and risk models.** For example, the unwinding of discounting of stage 3 ECL reflects the working of the risk model, so that should be disclosed separately from movements due to changes in risk parameters, such as an increased probability of default. Where it is not possible to isolate the impact of changes in risk parameters and/or changes in risk models to a single line item (because the effect is pervasive across many line items), narrative disclosures should be provided to inform users as to the impact of such changes.

Users find it helpful to know what the interaction is between the movement in ECL and the charge to the income statement by stage to inform expectations of possible impacts arising from other future movements.

Commentary

See guidance and example in D.1 above. In addition:

- The reconciliation to the income statement charge for the period could be presented by stage as well as in total.

Write-offs

Box	*Extracts from relevant guidance*	*Recommended disclosures*
24	An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity. (IFRS 7.35L)	

If write-offs are significant and the write-off policy is significantly different to peers, write-offs can have an effect on the comparability of coverage and other important ratios.

Good practice example

Recommendations D.1 and E.2

The Taskforce noted that these recommendations are typically shown through a single disclosure table in banks' annual reports. The extract below from the NatWest Group's 2021 annual report shows the movement in the balance sheet estimate, the gross carrying value and the movement in the income statement by material portfolio.

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - mortgages	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2021	132,390	23	28,079	227	1,291	236	161,760	486
Currency translation and other adjustments	—	—	—	—	10	10	10	10
Transfers from Stage 1 to Stage 2	(10,957)	(3)	10,957	3	—	—	—	—
Transfers from Stage 2 to Stage 1	25,468	162	(25,468)	(162)	—	—	—	—
Transfers to Stage 3	(17)	—	(574)	(19)	591	19	—	—
Transfers from Stage 3	11	—	343	25	(354)	(25)	—	—
Net re-measurement of ECL on stage transfer		(156)		117		9		(30)
Changes in risk parameters		(1)		(9)		58		48
Other changes in net exposure	13,071	(1)	(2,589)	(27)	(263)	(19)	10,219	(47)
Other (P&L only items)		(1)		1		(26)		(26)
Income statement (releases)/charges		(159)		82		22		(55)
Amounts written-off	—	—	—	—	(8)	(8)	(8)	(8)
Unwinding of discount		—		—		(30)		(30)
At 31 December 2021	159,966	24	10,748	155	1,267	250	171,981	429
Net carrying amount	159,942		10,593		1,017		171,552	
At 1 January 2020	135,625	12	10,283	86	1,289	215	147,197	313
2020 movements	(3,235)	11	17,796	141	2	21	14,563	173
At 31 December 2020	132,390	23	28,079	227	1,291	236	161,760	486
Net carrying amount	132,367		27,852		1,055		161,274	

- Despite the strong portfolio growth during 2021, ECL levels for mortgages reduced during the same period. The decrease in ECL was primarily a result of reduced PDs and LGDs reflecting the improved economic outlook and stable portfolio performance. This resulted in lower levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL.
- With various customer support schemes available and the revised economic outlook, Stage 3 ECL remained stable as new inflows remaining subdued. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer. Given the moratorium on repossession activity until later in 2021, write-offs remained at a subdued level.

F Credit risk profile

Risk exposures

Box	*Extracts from relevant guidance*	*Recommended disclosures*
25	For each type of risk arising from financial instruments, an entity shall disclose… (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer. (IFRS 7.34(a))	

Credit risk exposure

Box	*Extracts from relevant guidance*	*Recommended disclosures*
26	Disclose, by *credit risk rating grades*, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments: (a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses; (b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are: (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets; (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9. (c) that are purchased or originated credit-	**F.1 Quantitative disclosures analysing the period-end balance sheet position by credit risk rating grade for each stage as required by IFRS 7.35M in a tabular format that includes corresponding ECLs and gross carrying amounts.** **The disclosure should also include the range of PDs corresponding to each of the internal credit risk rating grades.** **Banks should provide an explanation of the PD used in the disclosure. Information should be provided in accordance with the DECL Groupings and guidance thereon, as set out in paragraph 48.**

	impaired financial assets. (IFRS 7.35M) The number of credit risk rating grades used to disclose the information in accordance with paragraph 35M shall be consistent with the number that the entity reports to key management personnel for credit risk management purposes. If past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.5.11 of IFRS 9, an entity shall provide an analysis by past due status for those financial assets. (IFRS 7.B81) Banks should consider whether credit quality disclosures can be made that are similar to those used for regulatory capital purposes. (EDTF recommendation 15[17])	

[17] November 2015

F.1 Example 1 – Table showing breakdown of credit exposure by stage and credit rating provided in accordance with the DECL Groupings and guidance thereon

	IFRS 9 12M PD range %	External rating[1]	Gross carrying amount					ECL allowance				
			S1	S2	S3	POCI	Total	S1	S2	S3	POCI	Total
UK retail – mortgages (drawn)												
Risk band 1	0.000-<0.025		X				X	X				X
Risk band 2	0.025-<0.075		X				X	X				X
Risk band 3	0.075-<0.200		X				X	X				X
Risk band 4	0.200-<0.500		X	X			X	X	X			X
Risk band 5	0.500-<1.250		X	X			X	X	X			X
Risk band 6	1.250-<5.000		X	X			X	X	X			X
Risk band 7	5.000-<17.500			X			X		X			X
Risk band 8	17.500-<100			X		X	X		X		X	X
Risk band 9	100				X	X	X			X	X	X
Total UK retail – mortgages			X	X	X	X	X	X	X	X	X	X
ECL coverage – UK retail – mortgages			X%	X%	X%	X%	X%					
UK retail – credit cards (drawn)												
Risk band 1	0.000-<0.025		X				X	X				X
Risk band 2	0.025-<0.075		X				X	X				X
Risk band 3	0.075-<0.200		X				X	X				X
Risk band 4	0.200-<0.500		X	X			X	X	X			X
Risk band 5	0.500-<1.250		X	X			X	X	X			X
Risk band 6	1.250-<5.000		X	X			X	X	X			X
Risk band 7	5.000-<17.500			X			X		X			X
Risk band 8	17.500-<100			X		X	X		X		X	X
Risk band 9	100				X	X	X			X	X	X
Total UK retail – credit cards			X	X	X	X	X	X	X	X	X	X
ECL coverage – UK retail – credit cards			X%	X%	X%	X%	X%					
UK retail – other (drawn)												
Risk band 1	0.000-<0.025		X				X	X				X
Risk band 2	0.025-<0.075		X				X	X				X
Risk band 3	0.075-<0.200		X				X	X				X
Risk band 4	0.200-<0.500		X	X			X	X	X			X
Risk band 5	0.500-<1.250		X	X			X	X	X			X
Risk band 6	1.250-<5.000		X	X			X	X	X			X
Risk band 7	5.000-<17.500			X			X		X			X
Risk band 8	17.500-<100			X		X	X		X		X	X
Risk band 9	100				X	X	X			X	X	X
Total UK retail – other			X	X	X	X	X	X	X	X	X	X
ECL coverage – UK retail – other			X%	X%	X%	X%	X%					
UK – corporate (drawn)												
Risk band 1	0.000-<0.025	AAA to AA	X				X	X				X
Risk band 2	0.025-<0.075	AA to AA-	X				X	X				X
Risk band 3	0.075-<0.200	A+ to A	X				X	X				X
Risk band 4	0.200-<0.500	BBB+ to BBB-	X	X			X	X	X			X
Risk band 5	0.500-<1.250	BB+ to BB	X	X			X	X	X			X
Risk band 6	1.250-<5.000	BB- to B	X	X			X	X	X			X
Risk band 7	5.000-<17.500	B- to CCC+		X			X		X			X
Risk band 8	17.500-<100	CCC to C		X		X	X		X		X	X
Risk band 9	100	D			X	X	X			X	X	X
Total UK corporate			X	X	X	X	X	X	X	X	X	X
ECL coverage – UK corporate			X%	X%	X%	X%	X%					
Rest of world (drawn)			X	X	X		X	X	X	X		X
ECL coverage – rest of world			X%	X%	X%		X%					
Undrawn								X	X	X		X

[1]The mapping between PD bands and external credit ratings in this illustrative table is shown for the purpose of illustrating the disclosure only and should not be assumed to be accurate.

Commentary

- PD bandings in the example are for illustrative purposes only. Banks should consider whether the number of internal credit risk rating grades that are disclosed to key management personnel and would be required by IFRS 7.35M are sufficiently granular to provide useful information in relation to recommendation F.1. The number of grades presented in Example 1 (or more) may be needed to achieve this in practice. Banks may have different ways of grouping exposures for internal credit management purposes, but these internal credit rating bands should be mapped to PD ranges, and, where applicable, external credit rating equivalents, to facilitate comparisons between banks, along with a description of the basis of the PDs used for the internal credit risk rating grades.

- The PD definition used for internal risk management purposes should be disclosed either in the column header (e.g. IFRS 9 12M PD) for internal credit risk rating grades or in the narrative accompanying the table.

- PD ranges are preferable to PD averages as they are easier to interpret and compare across banks.

- Gross carrying amount and allowance for ECL should be presented in the same table, alongside the associated coverage. Coverage ratios should be provided on a drawn basis (drawn ECL/drawn exposures). If material, coverage ratios calculated on undrawn exposures and ECL could be presented separately. Also see Recommendation D.2.

- PD ranges should be sufficiently narrow to provide useful information about the credit quality of exposures, especially for higher risk bands.

- The totals per the table should be easily reconcilable to the on- and off-balance sheet exposures.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
27		**F.2 Quantitative disclosures analysing the period-end balance sheet position should be linked to Basel PDs through disclosure of the range of Basel PDs for the different credit risk ratings by asset class.**

The aim of the disclosures recommended in F.1 and F.2 is to provide objective credit quality information about a bank's credit exposures. Information presented should be consistent with what is presented to management, but bank-specific terms such as 'Good' or 'Satisfactory' should be mapped to PD ranges and external rating equivalents to facilitate comparisons between banks. In addition, as banks may use different PDs for internal risk management purposes, recommendation F.1 asks for a description of the basis for the PDs underlying the internal credit risk rating grades and the range of PDs that corresponds to each grade.

Banks may report a number of credit risk rating grades to key management personnel at a summarised level. Where it will be useful to users of the financial statements to have sufficiently detailed credit risk breakdowns, for the purpose of this recommendation banks should consider increasing the number of credit risk rating grades. Subtotals can be used to meet the IFRS 7 disclosure requirement, where relevant.

Banks should provide the F.2 disclosure on a best endeavours basis. If the recommended disclosure is not provided in full, for example because Basel PDs are not available for certain exposures and are not used internally within the bank, then banks should assess for which population of exposures Basel PDs can be disclosed and/or, where appropriate, what information can be provided to explain how the F.1 disclosure relates to the relevant information presented in a bank's Pillar 3 disclosure (or other applicable regulatory disclosures).

If practicable, the combination of related credit quality information in a single table makes it easier for users to understand the overall credit quality of the bank's exposures.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
28	See box 26.	**F.3 To the extent that cure concepts are adopted in banks' staging criteria, quantitative disclosures of the portion of stage 3 financial instruments in a cure period before they can be moved back to stage 2.**

Some assets may be retained in stage 3 for a period once they cease to exhibit indicators of being credit- impaired; this is a cure period.[18] This disclosure provides more insight to the users about the nature of the exposures in stage 3. It indicates how much of the stage 3 exposure will likely move back to stage 2 at the end of the cure period.

F.3 Example 1 – Breakdown of stage 3 exposures

31 December 20XX			
In £ million	**Gross carrying amount**	**Allowance for ECL**	**Coverage**
Description			
Credit-impaired not in cure period	1,200	700	58%
No longer credit-impaired but in cure period[1] that precedes transfer to stage 2	100	40	40%
Total	**1,300**	**740**	**57%**

[The disclosure would then go on to describe the cure period(s) applied.]

[1] To be moved to stage 3 an exposure needs to be credit-impaired. If it subsequently ceases to exhibit indicators of being credit-impaired, it will remain in stage 3 for a period (known as a 'cure period') so that the apparent improvement of credit-status can be confirmed.

Commentary

- Information about stage 3 exposures that are transferable to stage 2 at the end of a cure period can either be provided in a tabular format as in the illustrative example, or in a footnote to a related credit table.
- This information could be provided in the context of explaining the impact of forbearance status on staging and it should be possible to reconcile to any disclosure on forborne assets.
- Where probation periods could play a significant role in transfers from stage 2 to stage 1, it would be helpful to provide a similar disclosure to the stage 3 to stage 2 disclosure described above.
- It would be helpful to distinguish between different loan types/asset classes – the explanation of the composition could be done through a footnote.

[18] In this report, the term 'cure period' is used to mean the period during which an exposure continues to be included in stage 3 even though the indicators or quantitative test used to move an asset into stage 3 are no longer present or is no longer met.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
29	See box 26.	**F.4 To the extent that 'non-performing loans' (NPLs), or a similar concept, is used by the bank:** **(a) an explanation of how this is calculated, and** **(b) where the difference between the NPL or similar concept used and the stage 3 gross loan population is material, a reconciliation between the two accompanied by an explanation of the nature of the reconciling items.**

This disclosure enables users to understand the relationship between similar credit-related concepts. Where possible, banks should avoid referring to credit measures that cannot be easily reconciled to the IFRS 9 disclosures presented.

F.4 Example 1 – Qualitative disclosure of the differences between 'non-performing' and 'stage 3 credit- impaired'

Non-Performing Loans (NPLs) are defined as customers who do not make a payment for three months or more, or if we have data to make us doubt they can keep up with their payments. The definition of default we use to identify NPLs is not significantly different to the definition of default we use to identify stage 3 exposures. The only difference relates to mortgages. For NPLs, we classify a mortgage customer as bankrupt for at least two years after first being declared bankrupt before we reassess their position. For stage 3, the equivalent period is at least seven years before we reassess their position.

F.4 Example 2 – Qualitative disclosure of the differences between 'non-performing' and 'credit-impaired'

Stage 3 analysis

In £ million	**Gross carrying amount**
NPL	**320,000**
Mortgage loans where customer has been bankrupt 3-7 years[1]	1,200
Stage 3	**321,200**

[1] *These customers would be considered bankrupt for the purpose of IFRS 9 staging but not for the definition of a NPL*

Commentary

To avoid confusion, banks using the concept of non-performing loans in their financial statements should clearly explain any differences in the definition of 'NPL' and 'stage 3 credit-impaired' in their narrative disclosures.

A reconciliation between non-performing loans and stage 3 should be provided in a table if material.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
30	See box 26.	**F.5 Stage 2 balances analysed by the reason (or where there is more than one reason, one of those reasons) for inclusion, at the balance sheet**

		date, in stage 2.[19]

The purpose of this disclosure is to explain the different reasons why exposures are in stage 2 at the balance sheet date. Exposures in stage 2 often meet a number of the possible criteria ('reasons') for which a transfer to stage 2 would occur but, as the sum of the exposures and ECL provisions shown in the table need to be the aggregate exposures and ECL provision, the table can reflect only one of those reasons.

While the disclosure looks at the reason for an exposure being in stage 2 at the balance sheet date, banks may also in addition disclose the original reason for the stage 2 transfer to provide additional insight into stage allocation methodology.

This disclosure helps users to better understand changes in credit quality during the reporting period.

F.5 Example 1 – Stage 2 analysis

31 December 20XX

Loans and advances to customers[1]

£m **GCA = gross carrying amount**				**PD movement**	**Forbearance support provided**	**Probation ary period**	**Other qualitative reasons**	**>30 days past due**	**Total**
UK	Drawn	Retail – mortgages	GCA	X	X	X	X	X	**X**
			ECL	X	X	X	X	X	**X**
			Coverage	X%	X%	X%	X%	X%	**X%**
		Retail – credit cards	GCA	X	X	X	X	X	**X**
			ECL	X	X	X	X	X	**X**
			Coverage	X%	X%	X%	X%	X%	**X%**
		Retail – other	GCA	X	X	X	X	X	**X**
			ECL	X	X	X	X	X	**X**
			Coverage	X%	X%	X%	X%	X%	**X%**
		Corporate loans	GCA	X	X	X	X	X	**X**
			ECL	X	X	X	X	X	**X**
			Coverage	X%	X%	X%	X%	X%	**X%**
Rest of the World (drawn)[2]			GCA	X	X	X	X	X	**X**
			ECL	X	X	X	X	X	**X**
			Coverage	X%	X%	X%	X%	X%	**X%**
Total (drawn)[2]			***GCA***	***X***	***X***	***X***	***X***	***X***	**X**
			ECL	***X***	***X***	***X***	***X***	***X***	**X**
			Coverage	***X%***	***X%***	***X%***	***X%***	***X%***	**X%**
Undrawn[2]			***ECL***	***X***	***X***	***X***	***X***	***X***	**X**
Total reported			**GCA**	**X**	**X**	**X**	**X**	**X**	**X**
			ECL	**X**	**X**	**X**	**X**	**X**	**X**

[1]Depending on materiality, disclosures for product groupings other than loans and advances to customers may also be provided.

[2]In this illustrative example, the preparer has provided the analysis of the stage 2 population of loans and advances to customers by reason for inclusion in stage 2 as at the balance sheet date) in accordance with the DECL Groupings. If an entity elects to present the information in accordance with the DECL Groupings, then depending on materiality, in some cases, the Rest of the World (drawn) and undrawn balances may be further disaggregated by product groupings and/or geography. In other cases, it may be appropriate to provide their respective relevant total amounts to reconcile to the total reported GCA and ECL amounts.

[19] This disclosure might already be provided in order to meet Recommendation D.1.

Commentary

- Banks may consider it appropriate to provide information in accordance with the DECL Groupings and guidance thereon, as set out in paragraph 48. Other bases of presentation may be acceptable. Both gross carrying amounts and ECL should be disclosed. Banks may also elect to disclose the associated coverage levels.

- Criteria listed in the table should be aligned to the indicators of SICR referred to elsewhere in the financial statements.

- Where balances satisfy more than one of the criteria for determining a SICR, the corresponding gross carrying amount and ECL should be assigned in order of the categories presented by the table above. So, if both a qualitative indicator and a PD criterion are met for a particular exposure, then that exposure should be allocated for the purpose of this table to the ‘PD movement’ line.

- ‘PD movement’ includes exposures that are in stage 2 due to an increase in PD since origination greater than the bank’s determined quantitative threshold for transfer from stage 1 to stage 2.

- ‘Forbearance support provided’ includes those forbearance treatments that are stage 2 indicators (e.g. “performing forborne”).

- If banks apply a “probationary” period, where exposures no longer meet any stage 2 triggers but are held in stage 2 pending completion of a period of time where stage 2 triggers remain unmet, banks should consider including this as an additional category.

- The ‘other qualitative reasons’ category is intended to capture all other qualitative SICR criteria. If it is used, these qualitative criteria should be explained in the narrative accompanying the disclosure.

- Quantitative information should be supplemented with narrative commentary explaining reasons for meeting the criteria (e.g. main drivers of PD movement during the reporting period).

- Also see Recommendation D.1.

Risk concentrations

Box	*Extracts from relevant guidance*	*Recommended disclosures*
31	To achieve this objective, credit risk disclosures shall provide …(c) information about an entity's credit risk exposure (ie the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations. (IFRS 7.35B) Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant risk concentrations. This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segment them by relevant factors. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type. (EDTF recommendation 26[20]) Describe and discuss top and emerging risks,[21] incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period. (EDTF recommendation 3[22])	**F.6 Where there is a link between concentrations of credit risks and top and emerging risks, the disclosures required by IFRS 7.35B and the disclosures implementing EDTF recommendation 26 on concentrations of credit risks should be linked to top and emerging risks identified and discussed by management in response to EDTF recommendation 3.**

The purpose of this disclosure is to provide sufficient quantitative credit risk information for users of the financial statements to assess the impact of the top and emerging risks mentioned in the management commentary on the bank's financial position and performance.

F.6 Example 1 – Link to top and emerging risks.

The following is an example of a bank with significant credit exposures through one of its subsidiaries to a market undergoing severe economic difficulties.

The 'Top and emerging risk' section provides a general description of the situation with a reference to quantitative disclosures provided about the credit exposures of the affected subsidiary.

<u>Top and emerging risks: Country X property market</u>

The continuing challenging economic climate within Country X has resulted in impairment levels for Country X portfolios remaining at elevated levels. In particular, high unemployment, austerity measures and general economic uncertainty have reduced real estate lease rentals. This, together with limited liquidity, has depressed asset values and reduced consumer spending with a consequent downward impact on the commercial real estate portfolio as well as broader impacts on Bank Y's mortgage and small and medium enterprise (SME) lending portfolios. Further details on Bank Y's credit risk profile can be found on pages [X] to [X].

[20] November 2015

[21] Companies are required to disclose details of the principal risks and uncertainties, Companies Act 2006 section 414C(2)(b).

[22] November 2015

Key credit portfolios: Bank Y

At 31 December 20XX, Bank Y accounted for 10% of the Group's total gross loans to customers. Bank Y's financial performance continues to be overshadowed by the challenging economic climate in Country X with impairments remaining elevated as high unemployment, coupled with higher taxation and limited liquidity in the economy, continues to depress the property market and domestic spending. The impairment charge of £2,340 million for 20XX was driven by a combination of new defaulting customers and higher provisions on existing defaulted cases due primarily to deteriorating security values. Provisions as a percentage of risk elements in lending increased from 53% in 20XX, to 57% in 20XX, predominantly as a result of the deterioration in the value of the Non-Core commercial real estate development portfolio. Bank Y impairment provisions take into account recovery strategies for its commercial real estate portfolio, as currently there is very limited liquidity in Country X commercial and development property.

[This recommended disclosure is about linking information so there would also be a quantitative sector analysis and quantitative geographic analysis in tabular format or a cross reference to those tables.]

Commentary

If a bank mentions a specific credit concentration risk (e.g. significant exposure to a country experiencing economic difficulties) as a top or emerging risk, the qualitative description of the risk should be supplemented with sufficient quantitative information for users of the financial statements to understand the extent and magnitude of the risk.

The narrative description should be clearly linked to relevant quantitative disclosures provided elsewhere in the report. It would also be helpful to consider any relevant linkage to the principal risks and uncertainties disclosure in the strategic report.

Credit enhancements

Box	*Extracts from relevant guidance*	*Recommended disclosures*
32	To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument: (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (for example, netting agreements that do not qualify for offset in accordance with	**F.7 The quantitative disclosure of information on credit enhancements required by IFRS 7.35K should be sufficiently granular to give an understanding of different material credit risk concentrations, including differentiating LTV bands where relevant.**

	IAS 32 *Financial Instruments: Presentation*). (b) a narrative description of collateral held as security and other credit enhancements, including: (i) a description of the nature and quality of the collateral held; (ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and (iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral. (c) quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date. (IFRS 7.35K)	

This disclosure enables users to better understand the loss given default of credit exposures across different asset classes, stages and geographic or other concentrations.

F.7 Example 1 – Loans and advances by LTV range

	Stage 1		Stage 2		Stage 3		Total	
LTV	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
Less than 50%	4,700	5	900	27	100	3	4,700	5
50% to 59%	1,500	2	200	6	25	1	1,500	2
60% to 69%	1,000	2	103	3	30	1	1,000	2
70 to 79%	440	1	10	0	20	1	440	1
80 to 89%	130	0	30	1	12	0	130	0
90 to 99%	30	0	20	1	3	0	30	0
100% and more	10	0	5	0	10	1	10	0
Total	**7,810**	**10**	**1268**	**38**	**200**	**7**	**7,810**	**10**

F.7 Example 2 – Collateral held on loans and advances by asset class and stage

Collateral held on loans and advances

31 December 20XX

	Gross carrying amount			**Collateral**			**Net exposure**		
In £ millions	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**
Wholesale	166,091	10,234	1,758	15,882	1,314	802	150,209	8,920	956
Retail Banking	101,235	2,705	436	74,485	2,092	324	26,750	613	112
Total	**267,326**	**12,939**	**2,194**	**90,367**	**3,406**	**1,126**	**176,959**	**9,533**	**1,068**

Commentary

- The illustrative examples show some of the options to meet the objective of this recommendation.
- LTV ranges should be provided by geography or other concentration if it is relevant to understanding the credit risk exposure of the bank.
- LTV ranges should be narrow enough to provide useful information.
- Collateral information should be provided separately for stage 3 as per the requirements of IFRS 7. Collateral information for stage 2 is optional.
- The amount of collateral included per individual loan should be limited to the outstanding loan amount to avoid over collateralisation resulting in a misleading presentation.
- In addition to quantitative disclosures, banks should provide information about the basis on which collateral is valued (e.g. value at inception of loan, current value or distressed value, and the seniority of collateral charge – whether a first charge or less senior).

Good practice example

Recommendation F.1

The Taskforce noted that the below extracts from the 2021 HSBC Holdings Plc annual report were examples of good practice, as the number of internal credit risk ratings disclosed was sufficiently granular to provide useful information. The inclusion of the PD bands was also noted to support users' understanding of the credit quality.

Wholesale lending – credit risk profile by obligor grade for loans and advances at amortised cost

	Basel one-year PD range	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for ECL Stage 1	Stage 2	Stage 3	POCI	Total	ECL coverage	Mapped external rating
	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%	
Corporate and commercial		400,894	98,911	13,460	274	513,539	(665)	(1,874)	(5,601)	(64)	(8,204)	1.6	
– CRR 1	0.000 to 0.053	40,583	599	–	–	41,182	(7)	(1)	–	–	(8)	–	AA- and above
– CRR 2	0.054 to 0.169	78,794	4,843	–	–	83,637	(26)	(43)	–	–	(69)	0.1	A+ to A-
– CRR 3	0.170 to 0.740	139,739	19,199	–	–	158,938	(165)	(145)	–	–	(310)	0.2	BBB+ to BBB-
– CRR 4	0.741 to 1.927	91,268	23,365	–	–	114,633	(218)	(258)	–	–	(476)	0.4	BB+ to BB-
– CRR 5	1.928 to 4.914	45,850	28,375	–	–	74,225	(185)	(424)	–	–	(609)	0.8	BB- to B
– CRR 6	4.915 to 8.860	3,280	11,197	–	–	14,477	(22)	(242)	–	–	(264)	1.8	B-
– CRR 7	8.861 to 15.000	1,101	4,406	–	–	5,507	(24)	(167)	–	–	(191)	3.5	CCC+
– CRR 8	15.001 to 99.999	279	6,927	–	4	7,210	(18)	(594)	–	–	(612)	8.5	CCC to C
– CRR 9/10	100.000	–	–	13,460	270	13,730	–	–	(5,601)	(64)	(5,665)	41.3	D
Non-bank financial institutions		61,086	3,874	395	–	65,355	(44)	(26)	(40)	–	(110)	0.2	
– CRR 1	0.000 to 0.053	14,370	122	–	–	14,492	(2)	(1)	–	–	(3)	–	AA- and above
– CRR 2	0.054 to 0.169	16,438	43	–	–	16,481	(5)	–	–	–	(5)	–	A+ to A-
– CRR 3	0.170 to 0.740	18,282	1,026	–	–	19,308	(11)	(4)	–	–	(15)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	6,835	1,204	–	–	8,039	(15)	(11)	–	–	(26)	0.3	BB+ to BB-
– CRR 5	1.928 to 4.914	5,053	1,297	–	–	6,350	(11)	(4)	–	–	(15)	0.2	BB- to B
– CRR 6	4.915 to 8.860	102	98	–	–	200	–	(5)	–	–	(5)	2.5	B-
– CRR 7	8.861 to 15.000	5	25	–	–	30	–	(1)	–	–	(1)	3.3	CCC+
– CRR 8	15.001 to 99.999	1	59	–	–	60	–	–	–	–	–	–	CCC to C
– CRR 9/10	100.000	–	–	395	–	395	–	–	(40)	–	(40)	10.1	D
Banks		81,636	1,517	–	–	83,153	(14)	(3)	–	–	(17)	–	
– CRR 1	0.000 to 0.053	61,275	10	–	–	61,285	(4)	–	–	–	(4)	–	AA- and above
– CRR 2	0.054 to 0.169	11,628	65	–	–	11,693	(3)	–	–	–	(3)	–	A+ to A-
– CRR 3	0.170 to 0.740	3,935	102	–	–	4,037	(2)	–	–	–	(2)	–	BBB+ to BBB-
– CRR 4	0.741 to 1.927	4,232	180	–	–	4,412	(5)	–	–	–	(5)	0.1	BB+ to BB-
– CRR 5	1.928 to 4.914	556	52	–	–	608	–	(1)	–	–	(1)	0.2	BB- to B
– CRR 6	4.915 to 8.860	9	541	–	–	550	–	–	–	–	–	–	B-
– CRR 7	8.861 to 15.000	1	564	–	–	565	–	–	–	–	–	–	CCC+
– CRR 8	15.001 to 99.999	–	3	–	–	3	–	(2)	–	–	(2)	66.7	CCC to C
– CRR 9/10	100.000	–	–	–	–	–	–	–	–	–	–	–	D
At 31 Dec 2021		543,616	104,302	13,855	274	662,047	(723)	(1,903)	(5,641)	(64)	(8,331)	1.3	

Personal lending – credit risk profile by internal PD band for loans and advances to customers at amortised cost

	PD range[1]	Gross carrying amount Stage 1	Stage 2	Stage 3	Total	Allowance for ECL Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	$m	$m	$m	$m	$m	$m	$m	$m	%
First lien residential mortgages		360,686	7,637	3,045	371,368	(128)	(131)	(416)	(675)	0.2
– Band 1	0.000 to 0.250	310,042	451	–	310,493	(30)	(5)	–	(35)	–
– Band 2	0.251 to 0.500	19,741	203	–	19,944	(7)	(2)	–	(9)	–
– Band 3	0.501 to 1.500	25,835	1,936	–	27,771	(79)	(8)	–	(87)	0.3
– Band 4	1.501 to 5.000	4,976	2,657	–	7,633	(12)	(30)	–	(42)	0.6
– Band 5	5.001 to 20.000	88	1,416	–	1,504	–	(35)	–	(35)	2.3
– Band 6	20.001 to 99.999	4	974	–	978	–	(51)	–	(51)	5.2
– Band 7	100.000	–	–	3,045	3,045	–	–	(416)	(416)	13.7
Other personal lending		96,270	8,802	1,897	106,969	(530)	(1,088)	(810)	(2,428)	2.3
– Band 1	0.000 to 0.250	45,049	187	–	45,236	(50)	(13)	–	(63)	0.1
– Band 2	0.251 to 0.500	12,625	605	–	13,230	(27)	(6)	–	(33)	0.2
– Band 3	0.501 to 1.500	22,791	1,518	–	24,309	(102)	(30)	–	(132)	0.5
– Band 4	1.501 to 5.000	13,006	2,360	–	15,366	(213)	(108)	–	(321)	2.1
– Band 5	5.001 to 20.000	2,732	3,257	–	5,989	(138)	(554)	–	(692)	11.6
– Band 6	20.001 to 99.999	67	875	–	942	–	(377)	–	(377)	40.0
– Band 7	100.000	–	–	1,897	1,897	–	–	(810)	(810)	42.7
At 31 Dec 2021		456,956	16,439	4,942	478,337	(658)	(1,219)	(1,226)	(3,103)	0.6

1 *12-month point in time adjusted for multiple economic scenarios.*

[The next recommendation is G.4]

G Measurement uncertainty, future economic conditions, and critical judgements and estimates

Sources of estimation uncertainty

<table>
<tr><th>Box</th><th>Extracts from relevant guidance</th><th>Recommended disclosures</th></tr>
<tr><td>33</td><td>An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period.

(IAS 1.125)

The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly. (IAS 1.127)

An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the</td><td>G.4 A quantitative multi-factor analysis[24] of sensitivities to key assumptions in forecasts of future economic conditions should be presented, based on the same economic scenarios that are modelled for the purposes of estimating ECL.

(a) The disclosure should show information resulting from applying a 100% weighting for at least three scenarios, alongside weighted ECL.

For example, this could include the central scenario, an upside scenario and a downside scenario. In cases where more than three scenarios are used to estimate ECL but the effect of applying a 100% weighting is only provided for three scenarios, banks should provide the disclosures for the scenarios which best illustrate the effects of non-linearity.

(b) For exposures and ECL included in the sensitivity analysis, the disclosure should show for each of those scenarios the effect on ECL and the gross exposure separately for each of stage 1 and stage 2. ECL and gross exposure for stage 3 exposures should also be included if they are materially sensitive to changes in macro-economic assumptions.

Gross exposure is the gross carrying amount for drawn exposures and the undrawn amount if ECL for undrawn exposures is included in the analysis. Additional information could also be provided, such as the impact on coverage ratios.</td></tr>
</table>

[24] Sensitivity of estimation of ECL can be calculated using a 'single-factor' or 'multi-factor' approach. A single-factor approach measures the possible change in the ECL arising from varying just one of the input parameters, in isolation, while a multi-factor approach measures the sensitivity to changing several parameters at the same time.

	sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved. (IAS 1.129) Sensitivity disclosures can provide useful quantitative information when they are meaningful and relevant to understanding how credit losses can change materially. This is most likely to be for portfolios where an individual risk parameter has a significant impact on the overall credit risk of the portfolio, particularly where these sensitivities are included in information that is used for internal decision making and risk management purposes by key management, the board or the board's risk committee. The complexity of ECL calculations means that a change in any individual parameter is often associated with correlated changes in other factors. Banks should consider whether it is helpful to disclose sensitivities to individual parameters if correlated changes in other factors would render the disclosure less informative. An alternative would be to model a different reasonably possible economic scenario, which would include changes in multiple underlying parameters. Modelling such an alternative economic scenario would require a much broader and more complex analysis of interrelated factors. This would be more akin to a stress test. Quantitative disclosures may be less appropriate for some risks, notwithstanding that they are relevant. This could be where it is concluded that such information cannot be included in ECL. Such risks could include potential economic or political developments. For these risks, it may be more appropriate to provide qualitative disclosures. (EDTF recommendation 3[23])	**(c) The disclosure should be given at an entity-wide level for total loans and advances to customers including both drawn and undrawn exposures with further disaggregation by the DECL Groupings (see guidance in paragraph 48) as appropriate where each grouping individually contributes a significant proportion of the overall sensitivity. If material, additional disclosures may need to be added for exposures other than loans and advances to customers.** The level of detail of the disclosure should be proportionate to the nature of the information disclosed and to the significance of the effects of uncertainty on the ECL estimate for that grouping. Commentary about particular concentrations of credit risk and their sensitivities should be provided where helpful. **(d) The disclosure should explain the limitations of the multi-factor sensitivity disclosure.** It is important that the measurement uncertainty information is not misinterpreted. Multi-factor sensitivity analysis requires a broad and complex analysis of interrelated factors, so the basis of preparation, assumptions and limitations should be clearly disclosed. For example, narrative commentary may be required to explain the reliance on correlation data between factors in the production of the scenario. **(e) A reconciliation should be presented reconciling i) the actual reported ECL provision amounts to ii) the total amount of weighted ECL that is sensitised in the above analysis.** This reconciliation should separately identify which amounts are excluded from the sensitivity

[23] November 2015

		analysis (for example, if appropriate, ECL related to stage 3 exposures and material judgemental adjustments, and the reason for their exclusion. For banks applying a Monte Carlo simulation approach to modelling ECL it is recognised that, with a high volume of scenarios, the disclosure approach described above may not be possible nor practical. In these cases, similarly useful information about measurement uncertainty could be provided by disclosing the ECL resulting from using a meaningful range of values of the key parameters - such as those at the 90th percentile and the 10th percentile of the range used in the Monte Carlo simulation in addition to the central scenario - and what the values of those parameters are. Such a disclosure would be similar to disclosing a downside and upside scenario.

Disclosures about measurement uncertainty help users to understand the sensitivity of the period-end numbers to alternative inputs and assumptions that could have been used or made at the balance sheet date. They are not forward-looking and are neither a forecast of future credit losses nor an attempt to forecast whether or when specific loans will default in the future. Indeed, they would be misleading if used for such purposes.

Multi-factor sensitivity analyses have the advantage that they are reflective of realistic scenarios, whereas it is rare to observe a single-factor moving in isolation without affecting other factors (e.g. an increase in unemployment would generally correlate with a decrease in Gross Domestic Product (GDP) and a House Price Index (HPI), although the degree of correlation may vary).

G.4 Example 1 – Quantitative information: example of a table showing the gross exposure and the effect on ECL resulting from applying a 100% weighting to selected scenarios (at least for central, upside and downside).

31 December 20XX		**Scenarios**		
	Weighted	**Upside**	**Central**	**Downside**
Stage 1 Gross Exposure (£m)				
Retail - mortgages	11,889	12,554	12,158	11,233
Retail - credit cards	7,924	8,368	8,103	7,487
Retail - other	5,945	6,279	6,080	5,618
Corporate loans	19,806	20,910	20,249	18,709
Stage 1 ECL (£m)				
Retail - mortgages	2	1	2	8
Retail - credit cards	135	142	138	129
Retail - other	90	95	92	85
Corporate loans	270	285	276	255
Stage 1 Coverage (%)				
Retail - mortgages	0.0	0.0	0.0	0.1
Retail - credit cards	1.7	1.7	1.7	1.7
Retail - other	1.5	1.5	1.5	1.5
Corporate loans	1.4	1.4	1.4	1.4
Stage 2 Gross Exposure (£m)				
Retail - mortgages	1,326	661	1,057	1,982
Retail - credit cards	884	440	705	1,321
Retail - other	664	330	529	991
Corporate loans	2,204	1,101	1,761	3,302
Stage 2 ECL (£m)				
Retail - mortgages	30	10	27	62
Retail - credit cards	153	80	125	214
Retail - other	50	30	42	60
Corporate loans	300	101	247	499
Stage 2 Coverage (%)				
Retail - mortgages	2.3	1.5	2.6	3.1
Retail - credit cards	17.3	18.2	17.7	16.2
Retail - other	7.5	9.1	7.9	6.1
Corporate loans	13.6	9.2	14.0	15.1
Stage 3 Gross Exposure (£m)				
Retail - mortgages	120	120	120	120
Retail - credit cards	406	406	406	406
Retail - other	55	55	55	55
Stage 3 ECL (£m)				
Retail - mortgages	18	15	20	30
Retail - credit cards	307	265	315	399
Retail - other	30	25	29	41
Stage 3 Coverage (%)				
Retail - mortgages	15.0	12.5	16.7	25.0
Retail - credit cards	75.6	65.3	77.6	98.3
Retail - other	54.5	45.5	52.7	74.5
Total Gross Exposure (£m)				
Retail – mortgages	13,335	13,335	13,335	13,335
Retail - credit cards	9,214	9,214	9,214	9,214
Retail - other	6,664	6,664	6,664	6,664
Corporate loans	22,010	22,010	22,010	22,010
Total Gross Exposure (£m)	**51,223**	**51,223**	**51,223**	**51,223**
Total ECL (£m)				
Retail - mortgages	50	26	49	100
Retail - credit cards	595	487	578	742
Retail - other	170	150	163	186
Corporate loans	570	386	523	754
Total ECL (£m)	**1,385**	**1,049**	**1,313**	**1,782**

Reconciliation from reported ECL to sensitised weighted ECL*	**ECL £m**
Loans and advances to customers	2,014
Loan commitments and other off-balance sheet exposures to customers	58
Total ECL on gross exposures to customers	2,072
Items excluded from macro-economic sensitivity analysis:	
ECL on corporate loan stage 3 exposures not materiality sensitive	(139)
Judgemental adjustments made outside the ECL model (see further, note X)	(548)
Total weighted ECL included in sensitivity analysis	1,385

Reconciliation from reported gross exposure to sensitised gross exposure	**£m**
Gross carrying amount of loans and advances to customers	37,601
Total undrawn loan commitments and other off-balance sheet exposures to customers	13,907
Total gross exposures to customers	51,508
Items excluded from macro-economic sensitivity analysis:	
Gross exposure corporate loan stage 3 exposures not materiality sensitive	(285)
Total gross exposure included in sensitivity analysis	51,223

**The reconciliations to reported Gross Exposure and ECL should include line items and detail as appropriate. In addition, narrative should be given to explain reconciling items to the extent not obvious from the line description. For judgemental adjustments the reconciliation may cross refer to the disclosures made under recommendation B.8 explaining the judgemental adjustments. A note to this table should explain how the judgemental adjustments might change under different scenarios (see 6th bullet below).*

Commentary

- Recommendation G.4 applies to all exposures that are materially sensitive to changes in key macro-economic assumptions, regardless for example of whether they are on- or off-balance sheet. The recommendation focuses primarily be on loans and advances to customers and off-balance sheet exposures to customers, as these are likely to be most materially sensitive to changes in the key macro-economic assumptions. Those exposures that are not materially sensitive to changes in macro-economic assumptions can be excluded, with commentary added to explain the excluded items (to enable users to understand the decision to exclude). Excluded items should form part of the reconciliation recommended in G.4(e) (in addition to those items discussed in the fifth bullet below).

- Some stage 3 exposures might not be materially sensitive to changes in macro-economic assumptions. In particular, most stage 3 exposures have a PD of one, and where that is the case the ECL will be materially sensitive to a more pessimistic set of macro-economic assumptions only if the LGDs are sensitive to those conditions, which is not always the case. For example, individually assessed stage 3 wholesale exposures are more likely to be sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of the macro-economic factors and cannot be easily modelled. The inclusion of stage 3 ECL that is not materially sensitive to changes in macro-economic assumptions is optional, although is nonetheless encouraged for completeness.

- The impact on ECL of exposures moving from a 12-month provisioning stage to a lifetime provisioning stage (and vice versa) as a result of changes in forecasts of future economic conditions is captured by recalculating the ECLs for stages 1 and 2 (through the changes in the population and PDs and LGDs for those two stages).

- The impact on gross exposure separately for each of stage 1 and stage 2 (and stage 3, if included) should also be disclosed to allow users to understand the overall impact of the changes in ECL.

- To the extent that this disclosure does not sensitise all loans and advances to customers and off-balance sheet exposures that are subject to ECL, or sensitise all elements of the ECL estimates, banks should include the reconciliation in G.4(e). Reconciling items (for example, stage 3 exposures, judgemental adjustments) should be clearly labelled and supplemented where necessary by an explanation as to why the amounts have been excluded from the analysis. Such a reconciliation highlights the components of ECL that are not included in the sensitivity analysis. In addition, a reconciliation of total gross exposure included in the sensitivity analysis to total reported gross on- and off-balance sheet amounts may be useful to highlight which other exposures are excluded from the sensitivity analysis.

- It is common for banks to apply judgemental adjustments in addition to the modelled outputs when estimating ECL (refer to Recommendation B.8). Some judgemental adjustments are of a type, or are included in the ECL estimation in a way, that makes it easy to include them in the above multi-factor sensitivity analysis in which case they should be included. Others – particularly those that are applied at the highest level and are not mechanically calibrated – are more difficult to include. In such circumstances, if it is not possible to incorporate the judgemental adjustments into the sensitivity analysis, information should be provided that helps the user to understand what is not included and why, and to help the user to understand whether and how those judgemental adjustments might change for each modelled scenario – in qualitative terms if this cannot be estimated. This helps users to understand a bank's sensitivities to changing parameters and helps enable comparison between banks, who may apply different types of judgemental adjustments.

- Where banks do not include stage 3 exposures in the sensitivity analysis, it may not be immediately obvious to the user how banks have concluded that the LGD for these stage 3 exposures is not sensitive to macro-economic assumptions. For example, were a bank to exclude stage 3 retail mortgage or commercial real estate exposures from the sensitivity analysis, users would want to understand why the LGD of said exposures is not sensitive to macro-economic assumptions about residential house or commercial property prices respectively and so explanation of this should be included within the disclosure provided.

- The Taskforce is aware that there is a risk that the stage 3 sensitivity numbers might be mis-interpreted to be some sort of forecast of defaults that might occur in future as economic conditions change. The risk of such misunderstandings can best be mitigated through clear disclosure about the meaning of the sensitivity disclosure, and what it does not represent.

- See also Recommendations C.3, C.4 and C.7.

Single-factor sensitivity analysis

Box	*Extracts from relevant guidance*	*Recommended disclosures*
34		**G.5 Any single-factor sensitivity disclosures provided should be accompanied by an explanation of their limitations.** For example, it might be considered helpful to disclose sensitivity to changes in HPI for retail mortgage exposures or other assumptions that management deems relevant to illustrate potential change to the ECL of credit exposures or a subset of exposures in the context of the economic cycle. If provided, consideration could be given to flexing the single factor sensitivity by more than one amount, if that provides useful insight into the extent of any non-linearities. It is important that the measurement uncertainty information is not misinterpreted. So, for example, any single-factor sensitivity analysis presented should include clear commentary on how it should be interpreted and used. Single-factor sensitivity analysis would reflect the sensitivity of the estimate to each key assumption on its own. Therefore, aggregating the results of single-factor sensitivity analyses for different parameters will not produce meaningful information because of the correlation of the effects of the parameters. Similarly, it should be explained that a single-factor sensitivity analysis should not be extrapolated due to the likely non-linear effect. For example, depending on the collateral cover in the portfolio, it will often be the case that non-linearity for single factor HPI sensitivities would only show significantly under an extreme stress. However, if under an extreme stress no other factor, including staging, would be constant, the single factor sensitivity would become unreliable.

Good practice example

Chapter G

The Taskforce noted, that many banks showed the recommendations in chapter G collectively, along with recommendation C.7. The following extract from the Barclays Plc 2021 annual report was noted an example of good practice; firstly it is broken down by portfolio and secondly, it includes a reconciliation between the weighted modelled ECL and the reported ECL – allowing users to understand the scope of the analysis and the impact of the 100% weighting of the economic scenarios.

As at 31 December 2021	Weighted	Upside 2	Upside 1	Baseline	Downside 1	Downside 2
Stage 1 Model exposure (£m)						
Home loans	137,279	139,117	138,424	137,563	135,544	133,042
Credit cards, unsecured loans and other retail lending	45,503	46,170	45,963	45,751	43,131	38,820
Wholesale loans	174,249	177,453	176,774	175,451	169,814	161,998
Stage 1 Model ECL (£m)						
Home loans	4	2	2	3	6	14
Credit cards, unsecured loans and other retail lending	324	266	272	279	350	418
Wholesale loans	290	240	262	286	327	350
Stage 1 Coverage (%)						
Home loans	—	—	—	—	—	—
Credit cards, unsecured loans and other retail lending	0.7	0.6	0.6	0.6	0.8	1.1
Wholesale loans	0.2	0.1	0.1	0.2	0.2	0.2
Stage 2 Model exposure (£m)						
Home loans	22,915	21,076	21,769	22,631	24,649	27,151
Credit cards, unsecured loans and other retail lending	7,200	6,260	6,521	6,795	9,708	14,290
Wholesale loans	32,256	29,052	29,732	31,054	36,692	44,507
Stage 2 Model ECL (£m)						
Home loans	15	10	11	12	22	47
Credit cards, unsecured loans and other retail lending	1,114	925	988	1,058	1,497	3,295
Wholesale loans	572	431	467	528	851	1,510
Stage 2 Coverage (%)						
Home loans	0.1	—	0.1	0.1	0.1	0.2
Credit cards, unsecured loans and other retail lending	15.5	14.8	15.2	15.6	15.4	23.1
Wholesale loans	1.8	1.5	1.6	1.7	2.3	3.4
Stage 3 Model exposure (£m)						
Home loans	1,724	1,724	1,724	1,724	1,724	1,724
Credit cards, unsecured loans and other retail lending	1,922	1,922	1,922	1,922	1,922	1,922
Wholesale loans[a]	1,811	1,811	1,811	1,811	1,811	1,811
Stage 3 Model ECL (£m)						
Home loans	303	292	295	299	320	346
Credit cards, unsecured loans and other retail lending	1,255	1,236	1,245	1,255	1,277	1,297
Wholesale loans[a]	323	321	322	323	326	332
Stage 3 Coverage (%)						
Home loans	17.6	16.9	17.1	17.3	18.6	20.1
Credit cards, unsecured loans and other retail lending	65.3	64.3	64.8	65.3	66.4	67.5
Wholesale loans[a]	17.8	17.7	17.8	17.8	18	18.3
Total Model ECL (£m)						
Home loans	322	304	308	314	348	407
Credit cards, unsecured loans and other retail lending	2,693	2,427	2,505	2,592	3,124	5,010
Wholesale loans[a]	1,185	992	1,051	1,137	1,504	2,192
Total ECL	**4,200**	**3,723**	**3,864**	**4,043**	**4,976**	**7,609**

Reconciliation to total ECL	£m
Total model ECL	4,200
ECL from individually assessed impairments	524
ECL from non-modelled and other management adjustments[a]	1,560
Total ECL	**6,284**

H Regulatory capital

Differences between accounting capital and regulatory capital

Box	*Extracts from relevant guidance*	*Recommended disclosures*
35	To comply with paragraph 134, the entity discloses the following: (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example components arising from cash flow hedges). The entity bases these disclosures on the information provided internally to key management personnel. (IAS 1.135(b)) Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed. (EDTF recommendation 10[25]) Including a high-level reconciliation of accounting capital to regulatory capital, a summary of instruments which form part of regulatory capital and a capital 'flow statement' in financial reporting would assist users' understanding of a bank's capital position without having to refer to the very detailed information in the Basel templates. (EDTF, section 6.2[26])	

Use of the ECL-related transitional relief available under regulatory capital rules

Box	*Extracts from relevant guidance*	*Recommended disclosures*
36	Institutions applying the transitional arrangements should provide a narrative accompanying the quantitative template that explains the key elements of the transitional arrangements they use. Pursuant to the second subparagraph of paragraph 9 of Article 473a of the Capital	**H.1 Disclosure explaining whether the IFRS 9 transitional arrangements for regulatory capital have been applied and, if so:** **(a) Qualitative disclosure summarising how the regulatory capital impact on**

[25] November 2015

[26] October 2012

	Requirements Regulation (EU) No 575/2013 (CRR), institutions should, in particular, provide explanations of all their choices regarding the options included in the same paragraph, including whether they are applying paragraph 4 of Article 473a or not, and on any changes on the application of these options. Institutions should also provide explanations of the changes to the prudential metrics included in the template due to the application of the transitional arrangements for IFRS 9 or analogous ECLs, where these changes are material. (EBA Guidelines on uniform disclosures under Article 473a of CRR as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds Annex 1)	**Common Equity Tier 1 (CET1) and Tier 2 (T2) is calculated.** This recommendation could be addressed by the disclosures required by Pillar 3 Template IFRS 9-FL explaining the key elements of the ECL transitional arrangements. To meet this recommendation such disclosure would include: - a summary of how the regulatory capital impact is calculated, with specific focus on the 'static' and 'dynamic' components calculated in accordance with Article 473(a) CRR; and - the declining percentages that will apply during each year of the transitional arrangements (including that which applies in the current period). The static component is the increase in impairment (and related impacts on regulatory capital) on initial adoption of IFRS 9. The dynamic components relate to an increase in impairment (on non-credit-impaired exposures) from the date of initial adoption to the reporting date. **(b) Qualitative disclosure explaining the impact of the IFRS 9 transitional arrangements on risk weighted assets (RWAs) and regulatory capital ratios, where significant.** **(c) Disclosure of key regulatory capital metrics including CET1, RWAs, leverage and capital ratios both with and without the IFRS 9 transitional arrangements (consistent with the requirement in Pillar 3 Template IFRS 9-FL), together with the amounts of each of the (i) static and (ii) dynamic transitional adjustments.** **(d) Quantitative disclosure of the impact of the ECL transitional arrangements on regulatory capital, achieved by including, in the reconciliation of accounting capital to**

		regulatory capital, a reconciliation between the resulting amounts under the transitional arrangements and the 'fully loaded' amounts without transitional arrangements. Differences are expected to relate to: - equity (impairment net of tax); - excess or shortfall of regulatory expected losses over IFRS impairment; - deferred tax assets; - other threshold deductions; and - Tier 2 surplus provisions. **(e) Where a bank has elected to apply the ECL transitional arrangements for regulatory capital, clear labelling of all regulatory capital amounts or ratios disclosed as either on a fully loaded basis or applying the transitional arrangements.**

Capital planning

Box	*Extracts from relevant guidance*	*Recommended disclosures*
37	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning, including a description of management's view of the required or targeted level of capital and how this will be established. The introduction of the new accounting standards will potentially affect capital measures as discussed above. (EDTF Recommendation 12[27])	**H.2 To the extent that IFRS 9 ECL is a key driver of decisions in capital management and the strategic direction of the bank, qualitative disclosure explaining the broad implications of IFRS 9 ECL on capital management and strategy.** This could include, for example, where there has been the curtailment of certain products with significant ECL volatility due to their potential impact on future regulatory capital.

[27] November 2015

I Governance and oversight

Risk management organisation, processes and key functions

Box	*Extracts from relevant guidance*	*Recommended disclosures*
38	Summarise prominently the bank's risk management organisation, processes and key functions. The adoption of an ECL framework requires banks to carefully consider their implementation strategies. This may include changes to the bank's risk management organisation, systems and processes and key functions both in the transition period for the purpose of the implementation plan and after the transition date when the ECL methodology becomes the mandatory impairment approach. Disclose how the risk management organisation, processes and key functions have been organised to run the ECL methodology. Banks could describe the impact of the new methodology on existing processes and the changes required to governance practices and processes. (EDTF recommendation 5[28])	**I.1 Qualitative disclosure explaining:** **(a) how the credit risk management organisation, processes and key functions have been organised to manage and report ECLs, bearing in mind the new concepts introduced by IFRS 9 (for example, SICR and macro-economic scenarios);** **(b) how it has been ensured that an effective system of internal controls ensures a consistent determination of accounting allowances under IFRS 9;** **(c) how and to what extent credit risk management strategy, practices and policies are aligned with the governance of ECL estimation;** **(d) what level of oversight exists over the key judgements and assumptions applied in estimating ECLs, including for example, multiple economic scenarios, the definition of a significant increase of credit risk, probabilities of default, use of post-model adjustments or overlays, and estimates of the lives of revolving credit facilities.** These disclosures should be more detailed when such judgements and assumptions are more complex or more challenging or when there is known diversity in the bank's practice compared to that of peers; and **(e) the governance framework over the development of models, their validation and approval, their subsequent maintenance, back-testing, recalibration and any subsequent changes.**

[28] November 2015

		The approaches described in the disclosures on model governance should follow the guidance provided by the Basel Committee on Banking Supervision in its report 'Guidance on credit risk and accounting for expected credit losses' (for example, refer to Principle 1 – Board and management responsibilities and Principle 5 – ECL model validation). The above disclosures are expected to be more granular and detailed in the first year of application of IFRS 9. In subsequent years, while key information (for example responsibilities and accountabilities of the risk organisation) should continue to be provided, the disclosures should focus on significant changes with respect to previously reported information.

Box	*Extracts from relevant guidance*	*Recommended disclosures*
39	See box 38.	**I.2 Qualitative information describing how the performance of the ECL estimation process is assessed (for example, the reasonableness of the ECL estimate and the results of applying the staging criteria).** In addition to controls, oversight and governance processes referred to in the previous recommendation, most banks will have 'reasonableness' procedures of various kinds (for example, stand-back tests, benchmarking, back-testing etc).

Box	*Extracts from relevant guidance*	*Recommended disclosures*
40	See box 38.	**I.3 An explanation of the governance arrangements over the origination, measurement and release of each material post-model adjustment or overlay.**

Box	*Extracts from relevant guidance*	*Recommended disclosures*
41	See box 38.	**I.4 As it becomes available, quantitative information on the reasonableness of estimates. This may include information on the back-testing of ECL or components of the calculations (such as PD, LGD or exposure at default (EAD) estimates).**

Appendix I – Recommendations in scope for the Taskforce's third report

Recommendation	Summary of Recommendation as per the Taskforce's second report
Overlays	
B.8	An explanation, for each material post-model adjustment or overlay made, of the reason for the adjustment; how its amount (including increases and decreases through release or otherwise) is determined; and the approach used for its estimation. The amount of each material post-model adjustment or overlay should also be disclosed.
Forward-looking economic scenarios	
C.3	Where an approach based on discrete scenarios is used, quantitative disclosure of the weightings assigned to each scenario and an explanation of the period-on-period changes in scenario weightings. For banks using a Monte Carlo approach, a disclosure explaining how the Monte Carlo approach has been used and period-on-period changes in its use. These explanations should be accompanied, where appropriate, by quantitative data.
C.4	Qualitative and quantitative disclosure describing the key parameters of the central scenario.
C.6	Quantitative information about alternative scenarios or adjustments for uncertainty including descriptions, for each material portfolio, of the characteristics of the range of alternative scenarios or the scalar adjustments used to adjust the central scenario.
C.7	Quantitative disclosure of the ECL that would result using only the central scenario assumptions, by material portfolio.
Movement tables	
D.1	Qualitative and quantitative disclosure explaining the movements of the population between stages in the reporting period by gross exposure.
D.2	Quantitative disclosure of ECL coverage by class for different stages. As part of the credit risk exposure disclosures required by IFRS 7.35M (see F.1), the ECL coverage would be provided at an appropriate level of attribution such as by loan product or other segmentation of the period-end balance sheet position.
E.1	A single table comprising the quantitative information required by IFRS 7.35H and IFRS 7.35I and containing reconciliations of opening to closing balances of: (a) the loss allowance, and (b) gross carrying value, including the effect of modifications.
E.2	Disclosure in the reconciliation of the movements between the opening and closing balance of the loss allowance of: (a) the income statement charge for the period; and (b) the movements in ECL that are not caused by movements in gross carrying amount, separately identifying amounts attributable to changes in risk parameters and risk models.

Credit exposure	
F.1	Quantitative disclosures of credit risk rating by class for each stage as required by IFRS 7.35M in a tabular format that includes corresponding ECLs and gross carrying amounts.
F.5	Stage 2 balances analysed by the reason (or where there is more than one reason, one of those reasons) for inclusion, at the balance sheet date, in stage 2.
Sensitivity analysis	
G.1	Qualitative and quantitative disclosures of sensitivities to key assumptions in forecasts of future economic conditions.
G.3	Information about estimation uncertainty should be provided for each material class of financial asset and the granularity should be proportionate to the estimated effects on ECL.
G.4	The multi-factor sensitivity analysis should be primarily based on the same economic scenarios that are modelled for the purposes of estimating ECL. (a) The disclosure should show information resulting from applying a 100% weighting for at least three scenarios. (b) The disclosure should show for, each of those scenarios, the effect on ECL and the gross carrying amount or percentage of assets that would under that scenario have been the subject of a lifetime ECL provision rather than a 12-month provision (or vice versa). (c) The disclosure should explain the limitations of the multi factor sensitivity disclosure.

Note: Recommendation F.5 was not included in the assessment phase but was updated as part of the gaps and changes work.

Appendix II – Other substantive changes made in the Taskforce's third report

The two most significant changes made to the third report of the Taskforce, on granularity and comparability and regarding judgemental adjustments, are described in paragraphs 24 to 34 above. This Appendix sets out other substantive changes made to the recommendations in the Taskforce's third report. Changes made to sections other than the Recommendations section, and editorial and conforming changes, are not described below.

<u>Chapter C Forward-looking information</u>

Recommendation C.3

1. Recommendation C.3 asked for "an explanation of the period-on-period changes in scenario weightings". The Taskforce felt that it would be more useful to have quantitative disclosure of those weightings for the current and prior period(s) to better understand a bank's views on forward looking economic scenarios and how those have changed from the prior period to the current period.

2. The recommendation has been updated to ask for a table stating current and prior period scenario weightings. This update will allow users to see changes more clearly between reporting periods. An updated illustrative example is included in chapter C, combined with key parameters for each scenario. The Taskforce noted that weightings need to be understood in the context of the scenarios and changes to scenario inputs, therefore the illustrative example under recommendation C.4 shows the combined recommendations from C.3 and C.4.

Recommendation C.4

3. Recommendation C.4 asked for "Qualitative and quantitative disclosure describing the key parameters of the central scenario" over the forecast period. Some preparers met the recommendation by providing an average over the forecast period and some by providing an annual average for each year of the forecast period. The Taskforce noted that they find annual averages a more useful tool for comparability; in part because forecast periods can vary across banks.

4. Consequently, to improve comparability, the text in the recommendation is updated to ask banks to provide the annual average value of each key input for each year within the year forecast period, rather than the average over the relevant period.

Recommendation C.6

5. Recommendation C.6, which asks for "Quantitative information about alternative scenarios" has been merged with C.4, as the disclosure tables typically in practice cover the base scenarios as well as alternative scenarios. No further changes have been made to the substance of the recommendation.

Chapter D / E Movement and coverage across stages and Changes in the balance sheet ECL estimate

6. Recommendation E.1 has been merged with recommendation D.1 as the disclosure tables in practice cover these two recommendations.

Chapter F Credit risk profile

Recommendation F.1

7. Recommendation F.1 asked for disclosure of credit risk ratings by class for each stage as required by IFRS 7.35M in a tabular format that includes corresponding ECLs and gross carrying amounts. Given that the titles and descriptions of internal credit risk rating categories varies across portfolios and banks, the Taskforce decided that it would aid comparability to understand the Probability of Default (PD) ranges underlying those credit risk ratings as that would enable better comparability across banks. The recommendation has been updated to ask for disclosure of the PD ranges and an explanation of the basis for the PDs used.

8. The Taskforce noted that material information may be obscured where banks disclose the number of internal credit risk grading categories disclosed in accordance with IFRS 7. The recommendation was therefore amended to request banks to consider whether the number of credit risk ratings disclosed for this recommendation provides sufficient granularity for users to understand the credit risk profile of a bank's exposures.

9. The illustrative example accompanying recommendation F.1, which included a column for PD ranges is updated to note that the PD ranges may not in all instances be Basel PD ranges.

Recommendation F.2

10. Guidance on recommendation F.2 is updated to recommend that banks provide information to help users understand how Pillar 3 disclosures (or other relevant regulatory disclosures) link to the disclosures made by banks under recommendations F.1 and F.2.

Recommendation F.5

11. Recommendation F.5 asked for "stage 2 balances analysed by the reason…for inclusion, at the balance sheet date, in stage 2". In practice, there was inconsistency in how the language in this recommendation had been interpreted by banks. Some banks disclosed the reason an exposure moved to stage 2 as at the date the exposure was transferred and others disclosed the reason as at the balance sheet date. As these two are not always aligned, there was seen to be a lack of comparability amongst banks on understanding the SICR triggers and the composition of stage 2.

12. The guidance supporting the recommendation is updated to be clear that the disclosure should reflect the reason that an exposure is in stage 2 at the balance sheet date.

13. The update to the illustrative example makes the recommendation clearer, and the illustration of a consistent format of the disclosure that can be used will help to provide more comparability for users.

Chapter G Measurement uncertainty, future economic conditions, and critical judgements and estimates

Recommendation G.1- G.4

14. Amendments have been made to Chapter G to remove recommendation G.1 which asked for "Quantitative and qualitative disclosures of sensitivities to key assumptions in forecasts of future economic conditions". Recommendation G.4, which provides further recommendations on multi-factor sensitivity analysis (see below), is enhanced to include the requirements from G.1 on multi-factor sensitivity analysis.

15. Recommendation G.2, which asked that 'Information that reflects estimation uncertainty as required by IAS 1 should be distinguished from any other sensitivity disclosures,' has also been removed on the basis that it was felt unnecessary for the Taskforce to point out that non-IAS 1 sensitivity disclosures need to be distinguished from IAS 1 sensitivity disclosures.

16. Recommendation G.3 which asked for information about estimation uncertainty to be provided by material class of financial asset has been deleted and the guidance on the appropriate granularity (reflecting DECL Groupings) is included in G.4. The updated recommendation also clarifies that all exposures that are materially sensitive to changes in macro-economic assumptions are in scope.

17. Recommendation G.4 asked for multi-factor sensitivity analysis. The Taskforce noted that it was not always clear from banks' disclosures what had been included in the scope of the sensitivity analysis, as well as how the ECL and gross exposure included in the sensitivity analysis reconciled to the reported ECL. This resulted in challenges in understanding what and by much ECL was impacted from the various sensitivities. The following updates have been made to the recommendations:

- To clearly ask banks to include weighted ECL (the ECL as a result of weighting at least three scenarios) as part of the sensitivity analysis.

- A new definition for gross exposure is included: the gross carrying amount for drawn exposures and the undrawn amount of ECL for undrawn exposures.

- To clarify that stage 3 exposures should also be included in the sensitivity analysis if they are materially sensitive to changes in macro-economic assumptions.

- To ask for a reconciliation between reported ECL and the ECL that has been included in the sensitivity analysis, whereby the reconciliation should separately identify which amounts are excluded from the sensitivity analysis and the rationale for such exclusions.

- To include an illustrative example showing the sensitivity analysis by the recommended granularity (and staging) and a reconciliation between the ECL included in the sensitivity analysis and reported ECL.

18. These updates will help increase to comparability across sensitivity analysis disclosures made by banks as well as provide users with an understanding of the main factors impacting the sensitivity of the ECL estimate.

Recommendation G.5

19. Recommendation G.5 asked that where single-factor sensitivity disclosures are provided in addition to multi-factor sensitivity analysis they should be accompanied by the limitations of such sensitivity analysis. The recommendation for single-factor analysis has been updated to ask banks to consider flexing the single factor sensitivity by more than one amount, if that provides useful insight into the extent of any non-linearity.

Appendix III – Members and secretariat of the Taskforce

Members of the Taskforce

Co-Chairs

David Joyce (Lloyds Banking Group)
Simon Samuels (Veritum Partners)

Other members

Justin Bisseker (Schroders)
Manus Costello (Autonomous)
Conrad Dixon (HSBC)
Gary Greenwood (Shore Capital)*
Andrew Hursthouse (Lloyds Banking Group)*
Chris Innes-Wilson (Standard Chartered Bank)
Richard Lawrence (NatWest)
Mark Maconachie (Barclays Bank)*
Jason Napier (UBS)
Ben Perry (Nationwide Building Society)
Jonathan Pierce (Numis)
Aman Rakkar (Barclays Bank)*
Alastair Ryan (Bank of America)*
Osman Sattar (S&P Global Ratings)
Christian Scarafia (Fitch Ratings)*
Guy Stebbings (BNP Paribas Exane)*
Brendan van der Hoek (Santander UK)

Secretariat

Bank of England: Mita Gandhi*, Michael Gaull*
Deloitte: Natasha Bourne*, Richard Tedder*
EY: Fabio Fabiani, Esther Pabla*
KPMG: James Estlin*, Silvie Koppes*, Sam Roberts*
PwC: Hannah King, Mark Randall

The Taskforce would like to put on record its thanks to Mark and Hannah, Fabio and Tony, and James, Silvie and Sam for going 'above and beyond' on the first, second and third reports respectively.

*Was involved in the third report only

Below are the names of former members who contributed to the first and/or second reports:

Members: Dave Bensley (Barclays Group), Elizabeth Fernando (USS), Bridget Gandy (Eaglescott), Claire Kane (Credit Suisse), Chris Manners (Barclays Group), Gerhard Muller (Barclays Group), Anne Obey (Nationwide Building Society), Sven Oestmann (Fidelity), Nicholas Osbourne (Blackrock), Joerg Sponer (Capital Group)

Secretariat: Izette Kluever (Bank of England), Charlotte Pissaridou (Bank of England), Tom Millar (Deloitte), Mikhail Osotov (Deloitte), Andrew Beaumont (EY), Tony Clifford (EY), Jaco Jordaan (KPMG), Colin Martin (KPMG), Mark Hannam (PwC)