The Taskforce on
Disclosures about Expected Credit Losses

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Dear Andrew, Stephen and Sam

We write on behalf of the Taskforce on Disclosures about Expected Credit Losses ('DECL Taskforce') to provide you with a copy of the Taskforce's first report *Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures.* We will be making the report available more widely shortly.

For banks and building societies preparing their financial statements on an IFRS basis, the introduction of expected credit loss accounting ('ECL') to replace incurred loss provisioning represents a fundamental change in accounting. Unfamiliar concepts and terminology are introduced. The provisions themselves will be different in nature and often in size compared to incurred loss provisions, and they might behave differently to incurred loss provisions at different points in the economic cycle. The change in total ECL provisions in any period will be the result of a lot more 'moving parts' than was the case under incurred loss provisioning.

This of course has implications for the firms, who will be looking to explain their ECL numbers to the market, and for users of their financial reports, who will be looking to understand and use the new ECL numbers. Effective disclosure will be essential if an information vacuum is not to appear and ECL is not to come to be regarded as something of a 'black box'. There are already ECL disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and the December 2015 report of the Enhanced Disclosure Task Force ('EDTF') contains some additional recommendations on the subject, but it will nevertheless still be challenging to develop a comprehensive set of appropriately detailed and targeted ECL disclosures. Achieving the desired degree of comparability between firms will be even more challenging. For that reason your organisations decided to set up the DECL Taskforce - a partnership between the preparer community and the investor and analyst community - and to ask it to work first on developing recommendations outlining the information that should be contained in that "comprehensive set of appropriately detailed and targeted disclosures", then on developing recommendations on how that information can be presented in a way that enhances comparability between firms. The enclosed report seeks to meet the first objective, and we will shortly be starting work on what we think will be a short series of additional reports designed to meet the second objective.

In preparing the enclosed report we have sought to build on the existing IFRS requirements, EDTF recommendations and related material. Our recommendations do go further though. For example, in some areas they are more specific, outlining the detailed information to be provided, how the information should be linked to other information disclosed and, in some cases, the level of detail or type of analysis to be provided.

Our focus has primarily been on describing the disclosures that the UK's biggest banks and building societies should provide, although we think the recommendations will be of value to a wider group of banks and building societies.

During the course of our work is has become apparent to us that, notwithstanding our desire to describe a comprehensive set of ECL disclosures, it is inevitable that ECL disclosure will need to evolve. Partly that is because preparers' capabilities in terms of the disclosures they can provide are still evolving. Preparers' ECL methodologies and systems will have a greater ability to analyse ECL-related data and to provide more data that is of publishable quality in the future than they do now. Our first report tries to anticipate that by setting out a 'stretching' set of recommendations. So, although we suspect that not all of the UK's biggest banks and building societies will be able to adopt all our recommendations immediately, we do believe they could all be adopted by all those firms within two or three years. The other reason ECL disclosure will evolve is because users' understanding of ECL is still developing and the disclosures they find useful are likely to change as their understanding grows. We will bear this in mind as we continue with the task you have asked us to perform but we are confident that, notwithstanding this, the recommendations in this first report will provide a sound basis for ECL disclosure for the next few years and for our own ongoing work on enhancing the comparability of ECL disclosure.

We would like to finish by thanking our fellow Taskforce members for all the time and effort they have spent on developing this report. We would also like to thank the members of the secretariat for their commitment, contributions and simply for making everything happen. Finally, we would like to thank your organisations for recognising the role that you could play in this very important subject and for taking the steps necessary to fulfil that role – and of course for your support.

Yours sincerely

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& Veritum Partners

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Enclosure: 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures: A report prepared by the Taskforce on Disclosures about Expected Credit Losses'