



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

A report prepared by
The Taskforce on Disclosures about Expected Credit Losses

26 November 2018

Contents

	Page
Introduction	3
Disclosure principles and overarching considerations	6
What this report recommends and why it matters	9
Recommended disclosures	12
A Alignment between accounting for credit losses and credit risk management activities	12
B Policies and methodologies	14
C Forward looking information	18
D Movement and coverage across stages	21
E Changes in the balance sheet ECL estimate	23
F Credit risk profile	26
G Measurement uncertainty, future economic conditions and critical judgements and estimates	29
H Regulatory capital	32
I Governance and oversight	35
Appendix – Members and secretariat of the Taskforce	37

Introduction

Background

- 1 The adoption of IFRS 9 *Financial Instruments* has resulted in significant changes to the accounting treatment of financial instruments. For banks and similar financial institutions, IFRS 9's new expected credit loss impairment model (referred to as 'ECL' in this report) will impact on the size and nature of their impairment provisions, and therefore on their balance sheets and profit and loss accounts, and this will be of interest to a wide range of external stakeholders, including investors, analysts and regulators. Effective disclosure will be key to helping those stakeholders understand the ECL provisions, given the substantial management judgements involved, its inherent complexities and its potential to increase earnings volatility compared to the previous accounting standard, IAS 39 *Financial Instruments: Recognition and Measurement*.
- 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) 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 and similar financial institutions' 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, HSBC, LBG, Nationwide, RBS, Santander UK and Standard Chartered. 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 the Appendix.
- 5 The recommendations in this report were developed primarily for use by the preparer firms represented on the Taskforce. However, the recommendations may be of relevance to other banks and similar financial institutions as a guide to best practice, particularly for those that manage their investor-base actively.
- 6 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, the report includes (on pages 9 to

11) a summary of what the Taskforce believes are the most important ECL considerations to facilitate its use by other interested stakeholders¹.

Objectives

- 7 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.
- 8 The focus of the Taskforce's work is ongoing disclosure, rather than transitional disclosures relating to the first period of IFRS 9 application.
- 9 With this in mind, the sponsors asked the Taskforce to:
 - first of all develop a set of recommendations on ECL disclosure that builds on the required IFRS disclosures and relevant EDTF recommendations² and that, when taken together with those other requirements and recommendations, describe what a 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, in general, prescribing how each disclosure is presented. This first objective is addressed by this first Taskforce report; and
 - subsequently develop more detailed guidance, including suggested pro forma disclosure formats where appropriate, describing how disclosures – including those recommended in this first report - can be presented in a broadly harmonised way. This second objective will be addressed in subsequent reports. The precise timing and number of subsequent reports are still under discussion, but it is recognised that, whilst some detailed suggestions could be developed quite quickly, more time will be needed to develop proposals in the most challenging areas.

Overview of report

- 10 This report is structured as follows:
 - *Disclosure principles and overarching considerations*—This section sets out the disclosure principles used by the Taskforce in developing its recommendations, as well as considerations applicable to all the recommended disclosures in respect of the scope, timing, frequency, location and granularity.
 - *What this report recommends and why it matters*—This summarises what the Taskforce views as the most important ECL considerations and then explains the related disclosures, why they matter to users, and where in this report the related recommendation can be found.
 - *Recommended disclosures*—This sets out the specific disclosure recommendations of the Taskforce.

¹ More detail on IFRS 9 can be found at: <http://www.ifrs.org/-/media/project/financial-instruments/project-summaries/ifrs-9-project-summary-july-2014.pdf>

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.

- 11 The recommended disclosures have been presented in a tabular format alongside the relevant IFRS disclosure requirements, EDTF recommendations and other relevant guidance. It is hoped that this presentation provides context to the recommended disclosures and facilitates an overview of what the Taskforce considers would be a complete set of high-quality ECL disclosures.
- 12 In the main, the recommended disclosures enhance existing requirements or recommendations to, for example, allow for more standardisation of quantitative disclosures or encourage more detail to be provided in order to achieve the objectives of this report. Many of these enhancements arise in areas where industry thinking has developed since the issue of IFRS 9 in July 2014 and the EDTF's second report in 2015. A notable example is in the area of forward looking information and the consideration of multiple economic scenarios.
- 13 Some recommended disclosures have no accompanying IFRS 7 requirement. This does not mean that the Taskforce regards the IFRS requirements as incomplete; merely that the scope of the Taskforce's recommendations extends beyond financial statements (which is the scope of IFRS) to disclosure in other parts of the annual report and possibly other reports.
- 14 Not every IFRS requirement or EDTF recommendation is accompanied at this stage by a recommended disclosure. That does not mean that the Taskforce views the disclosure as unimportant, only that in the context of this report the Taskforce decided it had nothing to add to the existing material at this stage. These disclosures may still be addressed in subsequent Taskforce reports.
- 15 During the preparation of this report, the Taskforce concluded that what a complete set of ECL disclosures looks like will evolve as firms' ECL implementation matures, as will firms' ability to deliver those disclosures. The Taskforce has sought to take that into account in this report, which for example notes that the Taskforce might make more detailed disclosure recommendations about measurement uncertainty (see Section G) in due course. Another area the Taskforce intends to give further consideration to in due course is the possible need to develop some more detailed Monte Carlo approach-specific disclosures on the forward-looking information used in the ECL estimate to replace this report's objective-based disclosure approach to the subject (see Section C).

Disclosure principles and overarching considerations

Disclosure principles

16 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.”³

17 In developing the recommendations in this report, 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 firm;
- 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 firm’s results over time; and
- facilitate improved comparability between firms to the extent possible and to help users to better understand the reasons for differences in firms’ risk exposures and firms’ provisioning levels.

18 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.

³ IFRS 7.35B

Overarching considerations

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

Timetable for adoption

- 20 Firms are encouraged to adopt the recommendations in this report in their year-end reporting. However, the Taskforce recognises that it might be that not all recommendations can be adopted by all firms initially (because, for example, more time is needed to refine systems and processes or to gather the appropriate data). The Taskforce believes though that all the recommendations could be adopted within two or three years and firms are encouraged to provide the recommended disclosures as soon as is practicable.

Frequency of disclosure

- 21 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.”⁴

If any of the information that would be provided by the disclosures recommended in this report 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”, firms are encouraged, in complying with the requirements of IAS 34, to provide the information in the form described in this report.

- 22 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.

Location of the recommended disclosures

- 23 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 firms change the location of any existing disclosure because of the recommendations in this report. Firms 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.
- 24 Indexes 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 firms in presenting the recommended disclosures. Other helpful approaches include the use of cross references to additional and/or more detailed supplementary information.

⁴ IAS 34.15

Materiality and granularity

- 25 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.
- 26 Providing an appropriate level of granularity in the disclosures will be 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 obscured⁵.
- 27 The appropriate level of detail for the recommended disclosures will vary dependent upon the nature of the disclosure and business model of the firm. 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 16 to 18 of this report) can be met. In all likelihood, this will involve a combination of credit risk drivers such as geography, line of business, product/asset class, credit quality, and vintage. Where appropriate, the level of granularity should be consistent across different disclosures presented by an individual firm.

Other recommendations and requirements

- 28 For the avoidance of doubt, banks and similar financial institutions will need to continue to comply with the relevant securities laws and reporting 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.

⁵ 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.”

What this report recommends and why it matters

29 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 introduce 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 on page 12.

B Policies and methodologies

IFRS 9 requires new **policies and methodologies** to be developed to measure ECL. This includes the use of new and existing terminology, definitions and data points which firms should explain in their reporting. Examples include categorisation of instruments into 3 'stages' according to changes in 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 firm can help users identify differences in the factors used in the calculation of ECL allowances (both across firms 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 on page 14.

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 a 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. 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 on page 18.

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 firms. 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', or 'staging'. 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 are set out on page 21.

E Changes in the balance sheet ECL estimate

The increased complexity of the ECL approach, compared to the previous requirements of IAS 39, increases 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 on page 23.

F Credit risk profile

IFRS 9 requires the use of a relative credit risk approach (in that it is the change in credit risk since origination, not the absolute credit risk, that dictates whether the ECL provision represents a 12 month or a lifetime provision for credit losses). 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 firm is exposed to. Recommendations on additional disclosures about the absolute credit risk profile per stage and the associated ECL are set out on page 26.

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

The increased complexity of the ECL approach, as well as the longer time horizons over which credit losses are modelled, also significantly increases the judgement required in estimating credit loss allowances and their potential volatility. Understanding the **measurement uncertainty** in ECL allowances arising from **critical judgements and estimates**, can help users understand the judgements that management has made about **future economic conditions** and the sensitivity of the ECL estimates to those judgements. Recommendations on disclosures regarding measurement uncertainty and sensitivities to critical judgements and estimates are set out on page 29.

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 the effect of which 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 on page 32.

I 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 firm'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 on page 35.

Recommended disclosures^{6,7}

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

Row	Extracts from relevant guidance	Recommended disclosures
1	<p>Risk appetite and credit risk management</p> <p>An entity shall explain its credit risk management practices. (From IFRS 7.35F)</p> <p>Describe the key risks that arise from the bank's business models⁸ 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 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 7⁹)</p> <p>Link between risk appetite/credit risk management and ECL</p> <p>Banks could consider highlighting how credit practices and policies form the basis for the implementation of the expected credit loss requirements. (EDTF recommendation 5¹⁰)</p> <p>An entity shall explain how its credit risk management practices relate to the recognition and measurement of expected credit losses. (From IFRS 7.35F)</p>	<p>A.1 Qualitative disclosure explaining whether the risk appetite and risk management strategy has changed as a consequence of the change in timing of reporting credit losses, and if so how (for example, affecting pricing and product strategy).</p> <p>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.</p> <p>A.2 Qualitative disclosure explaining the use of ECL information made by management.</p> <p>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.</p>

⁶ The IFRS requirement and EDTF recommendation extracts in the left-hand column of this section have been re-ordered and in some cases summarised to better align with the objectives and format of this report. Those seeking to comply with IFRS and adopt the EDTF's recommendations should therefore refer to the full texts of IFRS 7, IAS1 and the EDTF reports rather than these summaries.

⁷ The bold and non-bold text in the right-hand column of this section have the same status.

⁸ The Companies Act 2006 (section 414CB(2)(a)) and the Corporate Governance Code (provisions C.1.1 and C1.1.2., for the annual reporting year beginning on or after 17 June 2016, and provisions 1 and 27, for the annual reporting year beginning on or after January 2019) require quoted companies to discuss their business model.

⁹ November 2015

¹⁰ November 2015

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>A.3 Qualitative disclosure explaining how the ECL requirements have been incorporated into the credit risk management practices, if at all.</p> <p>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.</p>

B Policies and methodologies

Row	Extracts from relevant guidance	Recommended disclosures
2	<p>Risk terminology, measures and key parameter values</p> <p>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 2¹¹)</p>	<p>Refer to the recommendations on rows 3 to 9 below.</p>
3	<p>Definition(s) of default and credit impaired</p> <p>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))</p> <p>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))</p> <p>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. (IFRS7.35G(a)(iii) and IFRS7.35G(c))</p>	<p>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 unlikelihood to pay) and where relevant why and how the definitions differ.</p> <p>B.2 Qualitative disclosure explaining to what extent the definition of default aligns to the definition of credit impaired, highlighting any material differences.</p>
4	<p>The significant increase in credit risk (SICR) test</p> <p>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. (IFRS7.35F(a))</p>	<p>B.3 Qualitative disclosure explaining the policies adopted with respect to staging.</p> <p>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.</p>

¹¹ November 2015

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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. (IFRS7.35G(a)(ii) and IFRS7.35G(c))</p>	<p>The disclosure may include, amongst others, the extent to which macroeconomic scenarios have been incorporated into the staging assessment and the use of post-model adjustments or overlays in the staging assessment.</p> <p>B.4 Qualitative disclosure explaining the quantitative, qualitative and backstop¹² 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.</p>
5	<p>Low credit risk expedient and use of 30 days past due ‘backstop’</p> <p>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. (IFRS7.35F(a)(i) and IFRS7.35F(a)(ii) and (iii))</p>	<p>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.</p>
6	<p>Grouping for the purposes of collective assessments</p> <p>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))</p>	<p>B.6 Qualitative disclosure explaining the key shared risk characteristics used to group financial instruments together for assessment purposes.</p>
7	<p>Write-off policy</p> <p>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. (IFRS7.35F(e))</p>	

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.

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
8	<p>Modifications</p> <p>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:</p> <ul style="list-style-type: none"> 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. <p>(IFRS7.35F(f))</p> <p>Banks should consider setting out:</p> <ul style="list-style-type: none"> • 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. <p>When specific regulatory pronouncements exist around modifications (for example BCBS or European Banking Authority guidance), the bank could explain how these</p>	

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	are reflected in its IFRS 9 approach. (EDTF recommendation 2 ¹³)	
9	<p>Measuring 12-month and lifetime ECL</p> <p>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. (IFRS7.35G(a)(i) and IFRS7.35G(c))</p> <p>Banks should consider whether credit quality disclosures can be made that are similar to those used for regulatory capital purposes. (EDTF recommendation 15¹⁴)</p>	<p>B.7 Quantitative information regarding key parameters of the ECL calculation, presented in a tabular format.</p> <p>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 firm's ECL measurement and facilitates comparison between firms.</p>
10	<p>Overlays/Post-model adjustments</p>	<p>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.</p>

¹³ November 2015

¹⁴ November 2015

C Forward looking information

The recommendations set out in this section are expressed in the language that tends to be used by firms whose ECL approaches incorporate discrete scenario forecasts. The Taskforce envisages that firms 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. The Taskforce intends to give further consideration in due course to the possible need to develop some more detailed Monte Carlo approach-specific disclosures to replace the objective-based disclosure approach set out below.

Row	Extracts from relevant guidance	Recommended disclosures
11	<p>How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information. Any changes and the reasons for those changes should also be disclosed. (IFRS7.35G(b) and IFRS7.35G(c))</p>	<p>Forecasts, choosing scenarios and weightings</p> <p>C.1 Qualitative disclosure explaining how forecasts of future economic conditions are determined as inputs to the measurement of ECL.</p> <p>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).</p> <p>C.2 Qualitative disclosure explaining how representative ECL outcomes are selected from a range of possible outcomes to ensure an unbiased estimate of ECL.</p> <p>This disclosure should include explanations of:</p> <ul style="list-style-type: none"> (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. <p>To avoid any misunderstandings, the</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>disclosure should make it clear that the purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on ECL and that any presented ECL outcomes for different economic scenarios do not represent ECL forecasts.</p> <p>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.</p> <p>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.</p> <p>Central scenario</p> <p>C.4 Qualitative disclosure describing the key parameters of the central scenario¹⁵.</p> <p>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. (The alternative scenarios are normally derived by modifying the central scenario.)</p> <p>It should also include a description 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.</p> <p>C.5 Quantitative disclosure of the ECL that would result using only the central scenario assumptions, by material portfolio.</p>

¹⁵ The central scenario is typically management's best estimate of the most likely outcome of the key macroeconomic drivers impacting credit losses, such as forecast unemployment or real estate prices.

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>C.6 Qualitative information on significant changes in the central scenario compared to the previous period, with explanations of the reasons for those changes.</p> <p>Alternative scenarios/adjustments to central scenario</p> <p>C.7 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.</p>

D Movement and coverage across stages

Row	Extracts from relevant guidance	Recommended disclosures
12	Movements in amounts reported in each stage	<p>D.1 Qualitative and quantitative disclosure explaining the movements of the population between stages in the reporting period by gross exposure.</p> <p>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.</p> <p>These explanations of the reasons for material movements between stages should include a quantification of the associated ECL impact.</p> <p>The explanations should also include identification of sectors or loan portfolios 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.</p> <p>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,</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>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.</p> <p>Where the aforementioned quantitative information is not disclosed, instead quantitative information showing the reasons why instruments are in stage 2 as at the balance sheet date should be provided as per paragraph 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 portfolio were to move from stage 1 into stage 2, it would be helpful to identify the portfolio, the gross exposure amount and associated ECL impact involved, and explain the reason for the move.</p> <p>The quantitative disclosures mentioned above could be provided in a tabular format and in conjunction with the loss allowance reconciliations in row 14 below.</p>
13	<p>Coverage (ie ECL expressed as a percentage of the corresponding gross exposure)</p>	<p>D.2 Quantitative disclosure of ECL coverage by class for different credit risk ratings and stages. As part of the credit risk exposure disclosures required by IFRS7.35M (see row 17), 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.</p>

E Changes in the balance sheet ECL estimate

Row	Extracts from relevant guidance	Recommended disclosures
14	<p>Changes in the loss allowance</p> <p>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:</p> <p>(a) the loss allowance measured at an amount equal to 12-month expected credit losses;</p> <p>(b) the loss allowance measured at an amount equal to lifetime expected credit losses for</p> <p style="padding-left: 20px;">i. financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;</p> <p style="padding-left: 20px;">ii. financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and</p> <p style="padding-left: 20px;">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.</p> <p>(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.</p> <p>(IFRS 7.35H)</p> <p>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 to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss</p>	<p>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:</p> <p style="padding-left: 20px;">(a) the loss allowance, and</p> <p style="padding-left: 20px;">(b) gross carrying value,</p> <p style="padding-left: 20px;">including the effect of modifications.</p> <p>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.</p> <p>E.2 Disclosure in the reconciliation of the movements between the opening and closing balance of the loss allowance of:</p> <p style="padding-left: 20px;">(a) the income statement charge for the period; and</p> <p style="padding-left: 20px;">(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.</p> <p>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 disclosure should be provided to inform users as to the impact of such changes.</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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:</p> <ul style="list-style-type: none"> (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. <p>(IFRS 7.35I)</p> <p>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</p> <ul style="list-style-type: none"> (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 expected credit losses. <p>(IFRS7.35J)</p>	

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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.</p> <p>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.</p> <p>(EDTF recommendation 28¹⁶)</p>	
15	<p>Write-offs</p> <p>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. (IFRS7.35L)</p>	

¹⁶ November 2015

F Credit risk profile

Row	Extracts from relevant guidance	Recommended disclosures
16	<p>Risk exposures</p> <p>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 <i>Related Party Disclosures</i>), for example the entity's board of directors or chief executive officer. (IFRS7.34(a))</p>	
17	<p>Credit risk exposure</p> <p>Disclose, by <i>credit risk rating grades</i>, 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:</p> <p>(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;</p> <p>(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:</p> <p style="margin-left: 20px;">(i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;</p> <p style="margin-left: 20px;">(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and</p> <p style="margin-left: 20px;">(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.</p> <p>(c) that are purchased or originated credit-impaired financial assets.</p> <p>(IFRS7.35M)</p> <p>Banks should consider whether credit quality disclosures can be made that are similar to</p>	<p>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.</p> <p>F.2 To the extent that cure concepts are adopted in firms' 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.</p> <p>F.3 To the extent that 'non-performing loans' (NPLs), or a similar concept, is used by the firm:</p> <p style="margin-left: 20px;">(a) an explanation of how this is calculated, and</p> <p style="margin-left: 20px;">(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.</p> <p>F.4 Quantitative disclosures analysing the period end balance sheet position should be linked to Basel PDs through disclosure of the average Basel PD for the different credit risk ratings by asset class.</p> <p>F.5 An analysis of stage 2 balances at the balance sheet date, reflecting the</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	those used for regulatory capital purposes. (EDTF recommendation 15 ¹⁷)	reason, recorded on systems at that date for inclusion in stage 2¹⁸.
18	<p>Risk concentrations</p> <p>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)</p> <p>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 26¹⁹)</p> <p>Describe and discuss top and emerging risks²⁰, 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 3²¹)</p>	<p>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.</p>
19	<p>Credit enhancements</p> <p>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:</p> <p>(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</p>	<p>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.</p>

¹⁷ November 2015

¹⁸ This disclosure might already be provided in order to meet recommendation D.1.

¹⁹ November 2015

²⁰ Companies are required to disclose details of the principal risks and uncertainties, Companies Act 2006 section 414C(2)(b).

²¹ November 2015

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>for offset in accordance with IAS 32 <i>Financial Instruments: Presentation</i>).</p> <p>(b) a narrative description of collateral held as security and other credit enhancements, including:</p> <p style="padding-left: 20px;">(i) a description of the nature and quality of the collateral held;</p> <p style="padding-left: 20px;">(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</p> <p style="padding-left: 20px;">(iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.</p> <p>(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.</p> <p>(IFRS7.35K)</p>	

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

The PRA sent a letter on 8 January 2018 to the CFOs of the banks and building societies represented on the Taskforce that mentioned disclosures about measurement uncertainty and sensitivity. That letter explained that the PRA expected those banks and building societies to:

- provide qualitative disclosures about the measurement uncertainty inherent in the staging and provisioning levels and about the sensitivity of those levels to changes in credit conditions, and the implications of that measurement uncertainty and sensitivity for regulatory capital;
- understand the sensitivity of their ECL-related estimates and staging to choices, judgements, assumptions and forecasts made in implementing ECL that are or could become fundamental to the staging and provisioning levels ('the key drivers') and to put market participants in a position where they too can understand the sensitivity of the ECL-related estimates and staging to those key drivers. The PRA therefore expected the recipients of the letter to provide useful quantitative sensitivity information no later than their 2018 (or 2018/2019) annual reports and accounts.

The Taskforce agrees that a comprehensive set of disclosures about ECL needs to contain disclosures about measurement uncertainty where material uncertainty exists. However, the Taskforce recognises the subject is complex and multifaceted, and it believes there are advantages in seeing how firms approach the subject initially before encouraging practice to converge on any particular approach to the subject. The Taskforce is committed to working on recommendations in this area for inclusion in subsequent reports but, in the meantime, the recommendations set out below are relatively high level.

Row	Extracts from relevant guidance	Recommended disclosures
20	<p>Sources of measurement uncertainty</p> <p>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:</p> <p>(a) their nature, and</p> <p>(b) their carrying amount as at the end of the reporting period.</p> <p>(IAS1.125)</p> <p>The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most</p>	<p>G.1 Information that reflects estimation uncertainty as required by IAS 1 should be distinguished from any other sensitivity disclosures.</p> <p>When an entity complies with IAS 1.125 by providing the sensitivity disclosure suggested by IAS 1.129(b), it should clearly differentiate this disclosure from any other sensitivity disclosure the entity may wish to provide.</p> <p>Estimating ECL involves forecasting future economic conditions over a number of years. These longer term forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount within the next financial year.</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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. (IAS1.127)</p> <p>Nature of estimation uncertainty and sensitivity</p> <p>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:</p> <p>(a) the nature of the assumption or other estimation uncertainty;</p> <p>(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;</p> <p>(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</p> <p>(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.</p> <p>(IAS 1.129)</p> <p>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.</p>	<p>G.2 Information provided internally to key management personnel should be considered when evaluating how information on estimation uncertainty should be disclosed.</p> <p>Whether a single-factor or multi-factor sensitivity analysis is presented should be determined based on an evaluation of what information is most relevant for the entity’s portfolio and most useful for the users of financial statements. Information provided internally to key management personnel is relevant as a basis for this disclosure and should be considered when making this evaluation.</p> <p>Disclosures of sensitivities to key assumptions in forecasts of future economic conditions should be linked to top and emerging risks identified and discussed by management. For portfolios exposed to particular top and emerging risks, qualitative, and where meaningful, quantitative information on sensitivity of ECL for these portfolios to changes in assumptions that could be affected by these risks should be presented.</p> <p>G.3 Disclosure explaining the limitations of any sensitivity/uncertainty disclosures.</p> <p>In providing IAS 1 or other disclosures on measurement uncertainty, firms may present information in a number of different ways as envisaged by EDTF recommendation 3. In all cases, the objective of the recommended disclosure is to help reduce the risk that the sensitivity/measurement uncertainty information is misinterpreted.</p> <p>Any single-factor sensitivity analysis presented should include clear commentary on how factors should be interpreted and used. Single-factor sensitivity analysis should reflect the sensitivity of the estimate to each key assumption on its own. Therefore aggregating the results of sensitivity analyses for different parameters may not produce a meaningful result. The analysis should focus on key drivers of ECL identified by management. Multi-factor sensitivity analysis requires a</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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.</p> <p>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.</p> <p>(EDTF recommendation 3²²)</p>	<p>broader and more complex analysis of interrelated factors. If this form of analysis is presented, 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.</p>

²² November 2015

H Regulatory capital

Row	Extracts from relevant guidance	Recommended disclosures
21	<p>Differences between accounting capital and regulatory capital</p> <p>To comply with paragraph 134, the entity discloses the following:</p> <p>(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).</p> <p>The entity bases these disclosures on the information provided internally to key management personnel.</p> <p>(IAS1.135(b))</p> <p>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 10²³)</p> <p>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 6.2²⁴)</p>	
22	<p>Use of the ECL-related transitional relief available under regulatory capital rules</p> <p>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 Requirements</p>	<p>H.1 Disclosure explaining whether the IFRS 9 transitional arrangements for regulatory capital have been applied and, if so:</p> <p>(a) Qualitative disclosure summarising how the regulatory</p>

²³ October 2012

²⁴ October 2012

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
	<p>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)</p>	<p>capital impact on Common Equity Tier 1 (CET1) and Tier 2 (T2) is calculated.</p> <p>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.</p> <p>To meet this recommendation such disclosure would include:</p> <ul style="list-style-type: none"> - 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). <p>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.</p> <p>(b) Qualitative disclosure explaining the impact of the IFRS 9 transitional arrangements on risk weighted assets (RWAs) and regulatory capital ratios, where significant.</p> <p>(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.</p>

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>(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.</p> <p>Differences are expected to relate to:</p> <ul style="list-style-type: none"> - 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. <p>(e) Where a firm 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.</p>
23	<p>Capital planning</p> <p>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 12²⁵)</p>	<p>H.2 To the extent that IFRS 9 ECL is a key driver of decisions in capital management and the strategic direction of the firm, qualitative disclosure explaining the broad implications of IFRS 9 ECL on capital management and strategy.</p> <p>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.</p>

²⁵ October 2012

I Governance and oversight

Row	Extracts from relevant guidance	Recommended disclosures
24	<p>Risk management organisation, processes and key functions</p> <p>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.</p> <p>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.</p> <p>(EDTF recommendation 5²⁶)</p>	<p>I.1 Qualitative disclosure explaining:</p> <ul style="list-style-type: none"> (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 macroeconomic 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 judgments 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. <p>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 firm’s practice compared to that of peers; and</p> <ul style="list-style-type: none"> (e) the governance framework over the development of models, their validation and approval, their subsequent maintenance, back-testing, recalibration and any subsequent changes.

²⁶ November 2015

*Recommendations on a comprehensive set of IFRS 9 ECL disclosures—
Recommended disclosures*

Row	Extracts from relevant guidance	Recommended disclosures
		<p>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).</p> <p>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.</p> <p>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).</p> <p>In addition to controls, oversight and governance processes referred to in the previous recommendation, most firms will have ‘reasonableness’ procedures of various kinds (for example, stand-back tests, benchmarking, back-testing etc).</p> <p>I.3 An explanation of the governance arrangements over the origination, measurement and release of each material post-model adjustment or overlay.</p> <p>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).</p>

Appendix – 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)
Elizabeth Fernando (USS)
Bridget Gandy (initially Fitch Ratings, now Eaglescott)
Chris Innes-Wilson (Standard Chartered Bank)
Claire Kane (Credit Suisse)
Richard Lawrence (RBS)
Chris Manners (initially Morgan Stanley, now Barclays)
Gerbrand Muller (Barclays)
Anne Obey (Nationwide Building Society)
Sven Oestmann (Fidelity)
Nicholas Osbourne (Blackrock)
Jonathan Pierce (formerly of Exane BNP Paribas)
Osman Sattar (S&P Global Ratings)
Joerg Sponer (Capital Group)
Brendan van der Hoek (Santander UK)

Secretariat

Deloitte (Mark Rhys, Mikhail Osotov)
EY (Tony Clifford, Fabio Fabiani)
KPMG (Colin Martin, Jaco Jordaan)
PRA (Charlotte Pissaridou)
PwC (Mark Randall, Mark Hannam, Hannah King)