Basel Committee

Ref. G10164 FEB207673

Brussels, 30/04/2015

Comments on the by the Basel Committee proposed Guidance on Accounting for Expected Credit Losses (ECL)

Febelfin vzw/asbl (non-profit association) is the **Belgian Financial Sector Federation** and defends the interests of large banks, small and medium-sized banks, niche players, providers of infrastructure, etc. It speaks on behalf of Belgian the financial sector as a whole (except for the insurance companies).
The **credit granted by banks for the financing of the Belgian real economy** (banks and other financial institutions not included) amounted **end November 2014** up to **EUR 393.3 billion.**

First of all, we would like to thank you for the opportunity offered to react on the proposals in the field of supervisory requirements for sound credit risk practices that interact with expected credit loss measurement.

We fully agree with you that **increases in credit risk should be a priority for all stakeholders** in the banking industry and banks' credit risk practices have to provide for a **high-quality, robust and consistent implementation of an ECL accounting model** in accordance with the applicable accounting framework.

Therefore, **we welcome the initiative to propose some guiding principles on how the ECL accounting model should interact with banks' credit practices and the regulatory framework.** We also understand that the aim of this guidance is not to endeavour to set out regulatory capital requirements on ECL.
However, within this context we would like to stress too that the **guidance should remain consistent with IFRS 9 which is principle based**, and aligned with the generally accepted accounting terminology.

The Belgian banking industry would like to give notice hereafter of its major remarks:

1. **Proportionality and materiality.**

   Within the framework of the 1st principle *(Responsibility of the Board and Senior Management for ensuring appropriate credit risk practices (including effective internal controls, commensurate with the size, nature and complexity of its lending exposures to consistently determine allowances)*, Febelfin would like to underline the **importance of the proportionality and materiality** principles.

   As far as it concerns the proportionality principle, we would like to draw the attention that appropriate credit risk policies should also take into account the volume of existing available data for statistical analysis. This goes for credit institutions applying the standardized approach as well as for smaller portfolios of banks applying the IRB approach.

   Moreover, we are of the opinion that "materiality" according to IAS 1 should indeed be one of the guiding principles. The operational cost of the (implementation and) governance of a credit risk assessment model should be proportionate with the loan portfolio and/or loan losses.

2. **Use of practical expedients (low credit risk)**

   The Belgian banking industry wants also to highlight that the proposed **limitation to the use of the low credit risk expedient** which has been introduced by the IASB, would entail an **additional administrative burden**, which will **not enhance** necessarily the **overall quality and robustness of the ECL accounting model**.

3. **The link made between pricing and accounting & provisioning**

   We also notice that the proposed guidance makes a **clear link between on the one hand pricing and on the other hand accounting** (e.g. *31. Bank management should be able to demonstrate its adherence to sound underwriting practices and that the price at which lending exposures are granted appropriately reflects inherent risks*).

   In this context we would like to mention that making a link between pricing and accounting, is **obviously not in line with the future applicable accounting framework for ECL**.

   The risk data (probabilities of default) for portfolios with similar credit risk characteristics should be comparable across banks. Aberrant data should be monitored on a macrolevel to avoid unlevel playing field with impact on accounting reports.

4. **Data collection**

   The proposed guidance implies an **increased data collection from customers**.

   The Belgian banking industry would like to observe that such requirement is **not obvious** and risks to introduce additional administrative impediments for customers, especially for existing retail credit agreements.

We sincerely hope that these comments and suggestions can assist you in the further development of the guidance.

Yours faithfully,

Rik Vandenberghe
Chairman

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Chief Executive Officer