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Dear Mr. van Wyk,

Consultative Document: Guidelines: Guidance on accounting for expected credit losses

We welcome the opportunity to provide comments on the Consultative Document 'Guidance on accounting for expected credit losses' ('CD') issues by the Basel Committee on Banking Supervision ('Basel Committee').

HSBC is one of the largest banking and financial services organisations in the world, with assets of US$2,634 billion as at 31 December 2014. Headquartered in London, HSBC serves customers worldwide in over 73 countries and territories in five geographical regions. HSBC provides a broad range of financial services and products organised through four global businesses, Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

We acknowledge that the Basel Committee has a role to play in supporting consistent implementation of Expected Credit Loss ('ECL') accounting frameworks across jurisdictions, although this may be difficult to achieve given the different accounting requirements. We note that consistency can be best achieved through a single set of guidelines which is internationally accepted. Different guidelines being introduced in different jurisdictions is incompatible with consistent implementation, particularly for International Financial Reporting Standards ('IFRS') which should be applied internationally. The Basel Committee should therefore discourage the development of other jurisdictional or regional guidance on accounting.

It is also necessary for the requirements in the CD to be clear, consistent, and understandable to an audience that includes both risk and finance experts. We appreciate that the CD has been produced to a reduced timetable which is helpful to ensure that it will be finalised when it can effectively inform implementation efforts. However, significant editing of the CD is required in order to reduce inconsistencies and duplication and improve clarity of language.

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This is particularly important since the CD is intended to be read by a wide audience who may be more or less familiar with the accounting requirements or the existing risk management and regulatory reporting requirements. If different readers can interpret the language differently, this will not be conducive to consistent application. Our key comments are elaborated in the following paragraphs. While are aware that professional and industry bodies will make specific suggestions for drafting improvements which we think will significantly improve the document, in the appendix to this letter we have also provided more detailed comments on paragraphs of particular concern, such as where we believe there could be interpretations of the guidance which are inconsistent with IFRS 9 'Financial Instruments'.

Objective, scope and clarity

The CD replaces the existing Sound Credit Risk Assessment and Valuation of Loans guidance. Paragraph 1 describes the objective of the CD as being to set out supervisory requirements on sound credit risk practices associated with implementation and ongoing application of ECL accounting, and that the scope of the credit risk practices is limited to those affecting the assessment and measurement of ECL under the applicable accounting framework. We agree with this as a sensible objective for the CD. However we note that in some places the CD goes beyond its stated objectives to include other credit practices, such as underwriting and model validation. These areas are already in the scope of other regulatory requirements and guidance. Duplicating any existing guidance could cause confusion if it inadvertently introduces different language. It also risks obscuring any important matters specific to ECL accounting and related risk practices that the Basel Committee wishes to emphasise. Therefore we believe the CD should keep to its intended scope as described in paragraph 1 and delete any guidance that is not specific to this scope. Where guidance on other areas is considered helpful, this can best be done through cross referencing to other Basel publications.

It is important that the CD acknowledges the differences between Wholesale and Retail lending, and their risk management practices. Some aspects of the guidance seem more targeted at one rather than the other but this is not made explicit. For example, much of the discussion on credit risk ratings in Principle 3 seems more applicable to wholesale lending and the IFRS 9 appendix discussion on more than 30 days past due is more applicable to retail lending. It may be helpful to specify whether guidance is applicable to one type of lending or the other or to make sure that the guidance is sufficiently high level to apply to both.

We understand that the intention of the CD is not to change the principles of financial reporting or concepts such as relevance and faithful representation, including that the reported information should be complete, neutral and free from error. We think that this should be clarified in the CD with text being included up front to explain that the guidance is not intended to result in biased reporting and overstatement of allowances. Particular consideration should be given to text that refers to "prudence" and "adequate" and "robust" so that the context and intentions are clear. In addition, the responsibility of management for the financial reporting should be explicitly acknowledged.

Proportionality and materiality

We agree with the objective of a high quality implementation of the accounting requirements. We also agree that cost should not be used as an excuse not to incorporate forward-looking information or be the main driver for the use of the practical expedients set out in IFRS 9.

Nevertheless, we believe that the CD should make it clear that the general project disciplines of balancing cost, time and quality apply. The more complex and expensive approach should only be introduced where this enhances quality. The operational risks of maintaining and operating complex systems and meeting reporting deadlines are also relevant to a high quality implementation. Where data volumes are not available to support sophisticated modelling approaches, simpler approaches, consistent with the group's policies would be appropriate. This is consistent with Principle 1 of the CD where credit risk practices, including effective internal control should be commensurate with the size, nature and complexity of the exposure. It is also consistent with the fact that, even for large international banks, regulators do not permit or require A-IRB approaches to be applied to all portfolios. Therefore we believe that the CD should explicitly expand the notion of a "proportionate approach" to recognise that it also applies all banks and not just less complex ones.

Similarly, while we understand that the CD does not aim to override the concept of materiality as applied to financial reporting, we think that this should be emphasised and its consideration in the implementation of IFRS 9 should be further clarified. Management judgements based on the materiality of portfolios will be important to ensure resources are deployed as effectively as possible to support a high quality implementation. Therefore as a matter of principle, we do not agree that the use of practical expedients is representative of the quality of the implementation of IFRS 9. The IASB introduced these simplifications into the standard where it was considered that their use would be consistent with the principles of the standard. Their inclusion in the standard avoids each entity wishing to apply the simplification having to prove that the impact is immaterial, which is often impractical. Nevertheless, we expect to be circumspect in our use of them.

Consistency in underlying information

We agree that it is sensible to leverage and integrate risk management, capital adequacy and ECL accounting measurement processes to the extent that this is consistent with meeting their different requirements and objectives. Such alignment is likely to be efficient; it could also help ensure that financial reporting provides useful information reflecting risk management practices. However, the CD should explicitly acknowledge that despite similar inputs being used, the principles for risk weighted asset calculations and ECL accounting are fundamentally different. Therefore it is important that the CD does not implicitly suggest alignment in measurement for capital adequacy purposes and ECL accounting. Adopting unadjusted Basel metrics for accounting ECL would introduce bias which is in conflict with the accounting requirements. Including the type of forward looking information required by the accounting ECL model into the credit risk rating system, as could be implied by Principle 3, would change Basel metrics and change risk management processes in a manner which we believe is not intended.

Model development and governance

We note that where credit rating systems are designed in conjunction with Basel Advanced Internal Rating-Based ('A-IRB') approaches or similar internal risk measures, these systems and models will be created through a properly governed model development and review process. This means that all reasonably available information or factors that may be relevant will have been considered initially and the continued relevance of the information used will be assessed regularly. Where impairment models build on existing risk systems and models, the CD should acknowledge that this process will be helpful in ensuring all relevant

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information is incorporated. In addition, further information will need to be assessed for factors that are not included in the Basel models such as macroeconomic factors and for differences in concept between accounting and Basel models (e.g. point in time vs. through the cycle). However, while we agree that relevant information should not be ignored, the current wording of the CD may imply a standard that is not consistent with normal model development; which generally starts by considering a wide range of information but narrows the inputs into the modelling process to that sub-set which has been determined to be the key drivers. Therefore, references to "all available information" should be tempered to acknowledge the normal model development process and that IFRS 9 requires "reasonable and supportable information".

Segmentation

Similarly, a properly governed model development and review process will determine an appropriate segmentation that maximises the use of relevant information. Other than as a result of the model review process, we would not expect the segmentation to change. With this approach, the rank order of individual exposures and the measurement of ECL can be determined without re-segmentation. In fact, if the CD results in frequent re-segmentation this could drive differences from regulatory capital models, losing the benefit of the model development and review process, including the benefit of historical data series, resulting in a lower quality implementation. Frequent re-segmentation will also hinder comparability of numbers from period to period impairing management's ability to understand and explain the resulting financial reporting. While re-segmentation may be necessary for some implementation approaches, it is unlikely to be relevant to the approaches used by internationally active banks which are likely to use approaches that build on the Basel modelling process. Given that the guidance is intended to be relevant to internationally active banks, the sections on segmentation should be redrafted to place less emphasis on re-segmentation.

The CD should highlight the importance of ensuring that the grouping of exposures and the inputs to the accounting ECL models are risk sensitive, rather than suggesting that frequent re-segmentation is necessary for a high quality implementation, and the CD should state that level of aggregation should be responsive to the underlying credit conditions and behaviour of the borrower without suggesting that a particular level of aggregation or re-aggregation is necessary achieve this. This would ensure that building on the Basel modelling process, which will include governance aspects noted in the CD, is seen as a valid way of implementing the accounting requirements and avoid any implication that the CD is intended to change underlying Basel requirements.

Judgmental overlays

Ad hoc segmentation may be necessary to deal with events or inputs that are not included in the established models used to determine ECL. This may be because the event or input cannot be modelled or because it is too recent to be included in the models. For example, it may be necessary to determine the loans in a particular geographical area or industry in response to a natural disaster or unanticipated economic event that has a disproportionate impact. We expect this to be a relatively rare occurrence. Nevertheless, the CD could usefully acknowledge that appropriately governed processes will be needed to address inputs that are not included in the models and that this is where establishing the level of aggregation that is responsive to the event in question will be particularly important.

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Significant increases in credit risk

IFRS 9 has been through extensive due process and consideration by the IASB and much of this effort was to articulate when it is appropriate for loans to transfer to stage 2 in a manner that is clear, broadly defined and objective based. The term "a significant increase in credit risk" expressed as an increase in the risk of a default occurring since initial recognition is to meet concerns that even a minor change in credit quality would result in transfer (IFRS 9 BC5.170). The IASB decided not to specify the amount of change in risk of default occurring because this would require all entities to use the same measure and would be arbitrary and difficult to reflect the structure and pricing of credit that entities should consider for different types of financial instrument, maturities and initial credit risk. Rather, IFRS 9 acknowledges that credit risk analysis is multifactor and holistic and will depend on the type of product, characteristics of the financial instruments and the borrower as well as other factors such as the geographical region.

Therefore, we are not convinced that the CD will be able to provide greater specificity in defining a significant increase in credit risk, given the wide range of financial instruments, customer types and situations that the guidance would need to address. Section 2 of the appendix sets out many ideas that could be considered, but risks being interpreted as inconsistent with IFRS 9 (as noted in the appendix to this letter) where it introduces different language or where it could be interpreted to suggest that a minor change in credit quality would result in transfer.

Rather than attempting to provide additional guidance on how banks can determine whether there is a significant increase in credit risk, the CD would be more effective by noting that banks need to determine appropriate transfer criteria by considering all reasonable and supportable information, recognising that risk management generally considers absolute credit risk and accounting requires consideration of the relative change in credit risk since origination. Therefore banks will need to develop and document their transfer mechanisms and ensure appropriate governance, including review and challenge.

Low credit risk exemption

We agree that credit deterioration should be assessed for financial instruments with low credit risk so that changes in the12-month ECL can be measured and assessments made as to whether there has been significant increase in credit risk. We suggest that a clear statement to this effect would be helpful and then the remaining text in this section (paragraph A50 – A58) could then be deleted as it unclear. For example, if tracking of credit risk is always required, then there is no need for definitions of low credit risk to differentiate such populations and disclosure is already required of how an entity assesses significance for all types of financial instruments. We are concerned that the current drafting could be interpreted to mean that financial instruments with low credit risk should be assessed for credit deterioration in a more stringent manner than financial instruments with higher initial credit risk. Such a reading would conflict with IFRS 9 B5.5.9, which states that without considering the credit risk at initial recognition, a given change, in absolute terms, in the risk of a default occurring will be more significant for a financial instrument with a lower initial risk of a default occurring compared to a financial instrument with a higher initial risk of a default occurring. Therefore the initial credit risk of the loan must be taken into account in determining whether there has been a significant increase in credit risk and it should be made clear that this aspect of IFRS 9' is not an operational simplification.

Auditor involvement

The involvement of bank supervisors directly or through reliance on the work of auditors is unclear in relation to Principle 10 and the points that are emphasised in the CD. External auditors will perform procedures sufficient to be able to express an opinion on the financial statements as a whole and it is unclear whether it is intended that additional work in terms of providing assurance on the underlying risk management process is also required. Targeting the CD on the ECL process, rather than risk management more generally, would be necessary if there is an intention for any auditor involvement. In addition, we do not think the intention of this principle is for regulators to pre-approve models or processes for financial reporting purposes, but it would be helpful to clarify this point.

Disclosures

Accounting standards include disclosures that aim to provide quantitative and qualitative information to allow users 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 these changes. In addition, accounting standards require preparers to consider the appropriate level of aggregation or disaggregation and how much detail to disclose. To the extent that the CD reformulates these requirements, this seems unnecessary. Where the CD appears to introduce disclosure requirements, such as sensitivity analysis and the disclosure of similarities and differences in the methodology, data and assumptions used in measuring ECL for accounting purposes and expected losses for regulatory capital adequacy purposes, we believe this would best be done through a forum such as the Enhanced Disclosure Task Force ('EDTF'), which facilitates dialogues between the preparers and users to ensure that the information needs of the users are met effectively.

Finally, since there will no doubt be some changes to the draft CD, we suggest that representatives of the International Accounting Standards Board be provided with a further opportunity to comment on the final guidance. In addition, to ensure that the final guidance is clear and understandable, it might be useful to circulate a near final draft to stakeholders outside the regulatory community in order to obtain fatal flaw comments.

Yours sincerely

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Paragraph	Comments	Suggested solution
Principles	The text may not relate well to the underlying principle. For example:	
	Principle 2 is about policies and procedures so it is unclear how paragraphs 25 to 28 and 31 relate to the principle since they seem to set out additional factors for consideration by banks in making ECL estimates rather than guidance on developing sound policies or procedures.	If this text is considered necessary, it could be better placed with Principle 7.
	Principle 3 is about grouping lending exposures. Since credit risk ratings are on an individual basis, it is unclear why paragraphs 33 to 42 are under this principle.	If this text is considered necessary, it could be better placed with Principle 7 since the credit risk rating system is a common system. However, it should be clarified that the intention is not that forward looking information is included in credit risk ratings, which underpin risk management and Basel measures. Rather this is only needed for accounting purposes.
	Principle 4 and Principle 6 both include text that addresses forward looking information in paragraphs 51- 53, 59 – 64.	Rather than have similar but different text on forward looking information under two principles, it would be preferable to have a single section on forward looking information, perhaps under Principle 6. This will reduce duplication and the potential for inconsistencies or differences in interpretation.

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Paragraph	Comments	Suggested solution
12	The guidance acknowledges that a proportionate approach might be adopted by supervisors for less complex banks. It is not clear if this notion is intended to have wider application. However, this should be the case since Principle 1 suggests that credit risk practices should be commensurate with the size, nature and complexity of the lending exposures. It would be more consistent with how the A-IRB requirements are applied. In addition, the interaction between proportionality and the accounting concept of materiality should be further clarified.	The guidance should be clear that a high quality implementation results in modelling complexity that is commensurate with the size, nature and complexity of the lending exposures. This can be done by adding this phrase to the end of the last sentence in paragraph 11. The guidance should also clarify how proportionality is applied in the context of the guidance and acknowledge that materiality is an important accounting concept that is pervasive throughout the application of all accounting standards.
21-22, 41, 69	The guidance expects that the same information and assumptions are used consistently for credit risk management, accounting and capital adequacy purposes, and that the consistency will reduce bias. Rather, the credit risk management system is the fundamental foundation and the accounting and capital requirements are met by building on this common foundation and making changes as necessary to meet the different requirements. For example, the LGD for capital adequacy purposes reflects a downturn scenario. Applying such overly prudent scenario in measuring ECL is not compliant with IFRS 9.	To the extent appropriate, it is sensible to leverage and integrate risk management, capital adequacy and ECL accounting processes as this is likely to be efficient and help ensure that financial reporting provides useful information reflecting risk management practices. The guidance should therefore encourage banks to build on their credit risk management systems and processes to meet the accounting requirements but acknowledge that there are differences so the assumptions used cannot be the same. In general, consider deleting the word “assumptions” and noting that bias would result from using regulatory measures without adjustment.
24f	Risk concentrations are not directly relevant to the assessment of ECL so this could be interpreted as inconsistent with the Accounting Standards.	Delete “the existence of concentrations of credit risk and changes in the level of such concentrations.”

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Paragraph	Comments	Suggested solution
31	The discussion on underwriting practices appear to go beyond the scope of the document as described in paragraph 1, i.e. credit risk practices affecting the assessment and measurement of ECL. The paragraph does not make a link between underwriting practices and increases in credit risk. In some cases the examples appear to be of poor practices that should not happen (eg no documentation) and are unrelated to credit risk. In other cases, (eg increasing volume of impaired credit) the examples are increases in credit risk.	Paragraph could be deleted since it does not add to an understanding of how credit risk practices affect the assessment and measurement of ECL. Alternatively, the point could be made explicitly that, where inadequate underwriting practices are discovered, the ECL should be reassessed.
34, 37, 40, 41	Paragraph 41 sets out the premise that there should be consistency between credit risk ratings used for regulatory capital calculations and financial reporting. Because credit risk rating systems are a key part of how credit risk is monitored, rather than seeking consistency in the ratings themselves, the accounting and regulatory calculations should build on this common platform, recognising that there are differences. The purpose of documenting the differences in paragraph 41 is unclear since the main difference will be the need for the accounting to include more forward looking information. However the other paragraphs in this section can be read as implying that the credit risk ratings used for risk management and regulatory calculations should also incorporate forward looking information. We do not agree that this is the case – forward looking information can be used to determine adjustments to credit risk ratings, or the resulting accounting PDs, without necessarily being included in the credit risk ratings used for risk management and used to derive regulatory PDs.	Either delete the references to forward looking information in paragraphs 34, 37, 40 or otherwise make it clear that the credit risk ratings used for risk management are not expected to incorporate adjustments required for accounting purposes, ie by changing “credit risk rating system” to “ECL measurement”. If necessary, the point can be made only once, perhaps in paragraph 41 that, where credit risk ratings are used as a basis for the accounting, the impact of forward looking information will need to be incorporated.

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Paragraph	Comments	Suggested solution
44-48	Principle 3 about grouping lending exposures on the basis of shared credit risk characteristics should refer to Principle 7 which recognises that there is a commonality in processes, systems, tools and data used for risk management, ECL and capital requirements. In building credit rating processes and Basel models, exposures are grouped in a manner that maximises the use of relevant information and results in risk sensitive outcomes. The groupings are also reviewed and adjusted as and when necessary to ensure that they remain risk sensitive. Where these groupings are used as the basis for the ECL measurement, the guidance should not be interpreted to suggest a frequent re-segmentation that would drive unnecessary differences in approach, contrary to Principle 7.	If these paragraphs are to be retained, it should be clear that the guidance relates to groupings that are needed in addition to those that are common under Principle 7. For example, ad hoc groupings may be needed with respect to non-modelled overlays or where methodologies are used that do not build on the commonalities in risk management, for example, roll rate methods which are more likely to be used outside the target audience of internationally active banks.
51, 53, 59 – 64, A6,	Paragraph 51 expects that the ECL incorporates the expected impact of all reasonably available forward-looking information and macroeconomic factors. Paragraph A6 has similar expectations. This is unrealistic as not all information is relevant to the ECL. Paragraph 53 seems more reasonable by expecting that relevant information will be considered.	The guidance should appreciate that not all reasonably available information is relevant to the accounting of ECL and therefore only relevant information should be incorporated. In addition, it would be helpful to consistently use terminology from the accounting literature, eg “reasonable and supportable” to describe the information since using other language may result in interpretations not consistent with the accounting requirements.
58	Sound model validation frameworks are required more generally and are therefore subject to existing Basel requirements. Unless there are some specific factors that are unique to ECL which should be considered, this paragraph adds little to the scope of the document.	Paragraph could be deleted. If necessary, it would be better to replace with a cross reference to existing Basel requirements and explicit comment on any points that are unique to ECL or which the AEG thinks should receive emphasis. Otherwise, if there are any such points, they are lost in the more general requirements.

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Paragraph	Comments	Suggested solution
A1	This paragraph expects that lending exposures with nil allowances will be rare. This is not appropriate, especially for over-collateralised exposures. ECL will always reflect the possibility that a default will occur, rather that a loss will occur. While the PD might not be nil, the loss given default could be nil for exposures that are over-collateralised and hence resulting in no ECL being recognised. Recognising ECL for exposures that have no expected loss will not be compliant with IFRS 9.	The last sentence of the paragraph should be removed.
A4-A5	These paragraphs and footnote 29 suggest that the definition of default should include significant increase in credit risk. As the increase in credit risk is assessed using the probability of default ('PD'), an increase in credit risk itself cannot be a default or the circularity of language will result in the PD model not being operable.	The simplest solution is to delete the last two sentences of paragraph A5 and footnote 29. Alternatively, make it clear that these two sentences set out potential differences between the Basel definition of default and significant increase in credit risk for IFRS 9 i.e., replace "Furthermore" with "In addition, in order to consider whether there has been a significant increase in credit risk, …"
A7	It is difficult if not impossible to prove a negative and as such it is possible that the paragraph could be interpreted differently to IFRS 9.	Delete last sentence or modify it to say: "If the credit risk on a financial asset has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12 month expected credit losses."

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Paragraph	Comments	Suggested solution
A11 – A13, A34 – A35	As noted in the comments on paragraphs 44-48, the guidance should not be interpreted as suggesting re-segmentation that would be contrary to Principle 7. These paragraphs would drive an individual assessment since it would not be possible to practically develop portfolios that would meet the condition in A13 unless all items had identical credit quality.	A13 and the last sentence in A34 should be deleted unless the intention is to drive individual assessment, which would be contrary to the rest of the guidance. Rather, the guidance should be clear that, where necessary, groups should be established based on shared credit risk characteristics and banks should not obscure credit risk information by grouping financial instruments with different risk characteristics.
A11	It is unclear what "sound" means in the context of accounting guidance. Also, demonstrating that a grouping does not do something such as obscuring information would be difficult to do given that it requires proving a negative. The group must meet the criteria in IFRS 9 to share risk characteristics but the drafting in this paragraph could be interpreted as being inconsistent with IFRS 9.	Replace "sound" with "complies with IFRS 9" and delete "and that grouping of financial instruments does not obscure information".

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Paragraph	Comments	Suggested solution
A27	Point a and footnote 33 do not recognise that banks' pricing methodologies typically consider a range of factors, such as general price of credit or other factors such as economic, commercial or regulatory factors. The difficulty of identifying a credit risk component is set out in IFRS basis for conclusions (BC6.508-509) which provides an indication that it would be difficult, if not impossible to distinguish such a component, resulting in difficulty in rebutting the presumption in footnote 33. In addition, the view that life time ECL should be recognised when a financial instrument's credit risk at the reporting date is higher than the credit risk at which the entity would originate new lending is explained as inconsistent with IFRS 9 principles in basis for conclusions (BC5.163-BC1.65). Pricing is a lagging indicator in this context since the deterioration on the previous lending will have to be identified before it can be factored into the credit spread within the pricing for new lending. Given the nature of pricing, it will be difficult to rebut such a presumption and it is unclear whether any increase in credit spread of future loans is actually relevant to the assessment of credit risk on the current loans (and if it is, it is because the increase in credit risk on the existing loans has already been identified). Therefore it could be interpreted that the footnote would result in lifetime expected loss being recognised where there is no significant increase in credit risk (and equally improvements in credit quality recognised due to price changes which cannot be demonstrated as unrelated to credit considerations). This would not be compliant with IFRS 9.	Footnote 33 should be removed In addition, it is unclear why all the points in paragraph 27 have been highlighted given that they are effectively already included in IFRS 9 B5.5.17 (although worded differently). It would be more consistent with high quality implementation if banks were advised to consider all the indicators in IFRS 9, rather than focus on a few of the indicators.
A35	IFRS 9 suggests rather than requires collective assessment of impairment. The standard has been misquoted.	To replace the word 'requires' with 'suggests' in the first sentence.

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Paragraph	Comments	Suggested solution
A50	Paragraph A52 appears to require an assessment of credit risk to be made in all situations so that 12 month ECL allowance can be determined regardless of whether there is a significant increase in credit risk. This implies that the Committee consider that the operational simplification of avoiding tracking is never appropriate and so conflicts with the last sentence of Paragraph A50 which implies that tracking can be avoided in rare circumstances.	Since this paragraph mainly duplicates A52, consider deleting it entirely. Alternatively the last sentence should be deleted to avoid the apparent internal conflict.
A51	The paragraph read in the context with A52 could be interpreted as being in conflict with IFRS 9 B5.5.9 since the initial credit risk is always relevant to the determination of whether an increase in credit risk is significant	The paragraph should be reworded as follow: 'The Committee regards the low-credit-risk exemption as merely an operational simplification to avoid considering whether there has been a significant increase in credit risk. The Committee expects banks to continue to assess all exposures for changes in credit risk and recognise changes in 12-month ECL through the allowance where there is not a significant increase in credit risk. However, the Committee recognizes that the initial credit risk of a loan is important in determining the significance of any increase in credit risk since, if this is not considered, a change in absolute terms in the risk of a default occurring could be more significant for a financial instrument with a lower initial risk of a default occurring compared to a financial instrument with a higher initial risk of a default occurring which would be contrary to IFRS 9 B5.5.9'

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Paragraph	Comments	Suggested solution
A52-A58	If the suggested amendments to A50 and A51 are made, the remaining section is superfluous. The guidance would now clearly require credit risk to be tracked in all situations and the significance of any change assessed on its own merits in accordance with the requirements of IFRS 9. If this is the case, then no additional definitions to determine “low credit risk” or disclosures are necessary.	Consider deleting these paragraphs following the changes to A50 and A51.
A61	The guidance appears to require a statistical analysis for rebutting the 30 days past due rebuttable presumption. While this might be appropriate for some Retail exposures, it will be overly prohibitive for wholesale exposures. Wholesale exposures are often managed on an individual basis. Therefore the presumption could be rebutted based on individual facts and circumstances. It is unclear how macroeconomic factors are relevant to this analysis.	The guidance should segregate its expectation on wholesale exposures from retail exposures.