28/04/2015

Basel Committee
on Banking Supervision
Sent electronically

**Re: Basel Committee on Banking Supervision, Consultative Document, Guidelines, Guidance on accounting for expected credit losses**

Dear Sir/Madam,

The Swedish Bankers' Association welcomes the opportunity to respond to the Basel Committee on Banking Supervision, Consultative Document, Guidelines, Guidance on accounting for expected credit losses (CD). This letter represents the views of the Swedish Bankers' Association (the Association/We/Our).

The Swedish Bankers´ Association supports the comment letter from the International Banking Federation (IBFed) on the CD. However, we also have some comments on the CD which are the following.

The Swedish Bankers' Association supports major parts of the CD that are related to the credit processes within banks. However, we have some concerns related to the accounting issues in the CD, which we believe to a certain extent will limit the application of the IFRS 9. Even though we have read paragraph 2 and its footnote in the CD our main concern is that the Basel Committee issues guidance in the accounting area. As a general principle the IASB should be the only global standard setter to issue and interpret IFRS. If the Basel Committee is concerned about the financial strength of banks adjustments should preferable be made in the capital adequacy framework.

**Our specific comments on the consultation paper**

The CD introduces a restricted use of the low credit risk exception and thus limits the possibilities in IFRS 9 to keep assets in stage 1 when the credit risk is low. IFRS 9 allows this for assets with a credit quality equal to "investment grade". The proposal in the guidelines does not expect banks to use this practical expedient. As the guidelines are formed they also expect banks not to use the practical expedient of using past due statistics for transfers to stage 2, although allowed under IFRS 9. Our view on this is that it is important to have one set of high quality accounting rules and not many local versions that are not comparable. If local regulators limit the use of

IFRS, the users of financial statements will be confused and the benefits identified when adopting IFRS will diminish.

We believe the practical expedients in IFRS 9 are quite useful for many preparers, especially smaller banks, without risking too low reserves. We do not see a need for lifetime reserves for loans in investment grade, especially since a 12 month EL reserve is required from day 1 when there is no theoretical argument for having a reserve at all. We agree rating/scoring models are best suited for identifying increases in credit risk, but for portfolios where such information do not exits past due statistic is probably the best way of identifying increase in credit risk and we believe the practical expedient is useful for portfolios where rating/scoring information is not available.

We furthermore find the definition of default in the Appendix in paragraph A4 and A5 a source of concern. For the definition of stage 3 the document can also be interpreted to introduce an extension of the existing default definition. We do not understand the rationale behind adding an extension to the existing default definition according to the capital adequacy framework. The consequences of that is that it could cause unnecessary complexity and it is also unclear why the additional elements for determination of stage 3 were not applied in the capital adequacy framework.

SWEDISH BANKERS' ASSOCIATION

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