



Virgin Money Holdings (UK) plc

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virginmoney.com

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sir/Madam,

Guidance on accounting for expected credit losses

We welcome the Basel Committee on Banking Supervision's (BCBS) principles-based approach to aligning quantification of expected credit losses (ECL). We are pleased to have the opportunity to respond to this Consultative Document. The timing of this paper is useful given the ongoing discussion within the industry in relation to implementing IFRS 9.

Virgin Money supports the BCBS' intention to achieve alignment, as far as possible, between regulatory and accounting frameworks in respect of ECL recognition.

We believe the approach to ECL accounting will improve the usefulness of financial reporting by improving comparability and transparency of financial statements. In addition, the move to ECL accounting should enhance market discipline by improving the consistency of public disclosure among market participants.

We view the eight principles which are relevant to firms as being fundamental to ensuring that firms have a robust credit risk and financial control environment. We would welcome more detailed information on the following key areas:

ECL and interaction with the capital counter-cyclical buffer

We would welcome further guidance on the supervisory approach to setting capital requirements, particularly during stress periods, taking account of the application of ECL accounting.

ECL and risk of gaming

There is a risk that the ECL approach will be open to gaming by market participants. This could take the form of overly-optimistic forward-looking judgements which reduce the ECL charge or overly conservative judgements to provide scope for profit smoothing in future years.

We suggest that further consideration be given to addressing this risk through the tools available to local regulators. For example, disclosure requirements around ECL provisions on anonymised portfolio basis would help to ensure gaming among market participants is minimised.

Data requirements

We believe that moving to an ECL approach will be more difficult for firms with less historical data available as they will not have the benefit of 'full cycle' information to



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inform their ECL judgements. In particular, for this reason the shift to ECL is likely to be more difficult to achieve for new entrants and challenger banks. We suggest that further consideration be given to new barriers to entry and expansion that moving to an ECL approach might introduce for new entrants and smaller banks with growth aspirations.

Further guidance

Given the importance of this matter, its complexity and the potential implementation costs, we would appreciate clarification of the points raised and the other matters arising in responses to the Consultative Document through a further consultation exercise.

If you would like to discuss any aspect of our response in greater detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "M. Watson", with a long horizontal flourish extending to the right.

Marian Watson
Chief Risk Officer