Basel Committee on Banking Supervision

BIS

Centralbahnplatz 2
CH-4002 Basel, Switzerland
Tel: +41 61 280 8080
email@bis.org www.bis.org

Chair

Via email: commentletters@ifrs.org

Mr Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

21 September 2023

Subject: IASB Post-implementation Review of IFRS 9 *Financial Instruments* Impairment

Dear Mr Barckow

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on the International Accounting Standards Board's (IASB's) Request for Information on the Post-implementation Review of IFRS 9 *Financial instruments* Impairment. The Committee has a strong interest in promoting high-quality financial reporting by banks and supports the IASB's efforts to further develop high-quality accounting standards that help to promote the safety and soundness of the financial system. As noted in the Committee's July 2023 Newsletter on credit risk issues, sound provisioning practices enable banks to identify any deterioration in credit risk in a consistent and timely way, thus forming an integral part of credit risk management.[1] Failure to identify and measure deterioration in credit risk in a timely and consistent way may lead to higher future bank losses and capital inadequacy that could undermine confidence in the banking sector.

The Committee supports expected credit loss accounting standards, including the impairment requirements in IFRS 9. The standard is generally working as intended and ensures more timely recognition of credit losses than under the previous incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement*. The Committee supports the benefits of maintaining IFRS 9 and finds the rationale for the three-stage approach workable.

The move to IFRS 9 has been an important step forward in resolving the weaknesses identified during the great financial crisis that credit loss recognition was "too little, too late". Also, the IFRS 9 impairment requirements enable a closer alignment between the accounting and credit risk functions in a bank, thereby facilitating better use of forward-looking information for analysing changes in asset quality and supporting ongoing credit monitoring and controls.

In 2015, the Committee issued Guidance on credit risk and accounting for expected credit losses (hereafter referred to as the Committee's Guidance).[2] Since 2016, the Committee has been monitoring how expected credit loss models are being implemented by internationally active banks, to understand the range of banks' practices with a focus on their quality and consistency.

[1] A link to the newsletter is available here.

[2] The guidance is available here.

That work has not identified any fatal flaws in IFRS 9. However, it is hard to draw strong conclusions on the effectiveness of the standard given it has not yet been tested through a scenario where significant defaults arise. In addition, supervisors continue to observe a range of impairment practices with IFRS 9 that warrant further supervisory monitoring. Supervisors have also observed a lack of consistency in disclosures to enable users to understand and compare banks' exposure to credit risk. It is crucial that banks adopt high-quality and consistently robust approaches for estimating expected credit loss impairments to enable comparability across banks and over time.

The Committee therefore has identified a number of areas where the IASB could refine the standard to support a higher-quality and more consistent application, including in relation to:

- *The assessment of a significant increase in credit risk (SICR)* – The Committee believes that IFRS 9 would benefit from clearer guidance on identifying SICR and, when it comes to assessing whether a change in the risk of default occurring is significant, a guiding principle that can be used to assess *significance*. The Committee also suggests the IASB add further guidance in the standard on the use of collective SICR assessments, given the current diversity in practice.

- *Measuring expected credit losses (forward-looking scenarios and post-model adjustments)* – The Committee suggests the IASB add further guidance and clarification in IFRS 9 to support preparers in capturing the impact of economic uncertainty on forward-looking scenarios and credit loss estimates, as well as to support the proper use of post-model adjustments.

- *Disclosures* – The Committee suggests the IASB consider adding specific disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* on model adjustments and sensitivity to different economic assumptions, and acquired loan portfolio(s), as well as granularity in disclosure across different types of lending.

Further details on the above are provided in the Annex.

This letter has been prepared by the Committee's Accounting and Audit Expert Group, chaired by Katherine Tilghman Hill, Head of Supervisory Policy and Strategy, Federal Reserve Bank of New York.

If you have any questions regarding these comments, please contact Lushendren Pather at the Basel Committee Secretariat (Lushendren.pather@bis.org / +41 61 280 8268).

Yours sincerely,

Pablo Hernández de Cos

Enclosures

Annex: Comments on the IASB's Post-implementation Review: IFRS 9 *Financial instruments* Impairment

Question 1 – Impairment

Do the impairment requirements in IFRS 9 result in:

a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?

b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?

The Committee believes that IFRS 9 has led to more timely recognition of credit losses compared to IAS 39. The move to a forward-looking expected credit loss (ECL) provisioning model has been an important step forward in resolving the "too little, too late" problems that emerged in the financial crisis with the incurred loss model. IFRS 9 has supported public disclosures providing more timely, relevant and decision-useful information that more fairly depicts a bank's exposure to credit risk.

While it is still too early to draw conclusions on the overall effectiveness of IFRS 9 when defaults rise, the requirement to book credit loss allowances for all exposures has been a major improvement compared to the previous IAS 39 impairment model, as insufficient provisioning can lead to important vulnerabilities and supervisory concerns.

Our initial observations indicate the following:

- IFRS 9 has enabled better integration of forward-looking information across both accounting and risk management functions. The "three stages" approach allows for a better understanding of changes in asset quality, which enables more robust credit risk monitoring. This approach has also increased the decision-usefulness of the information disclosed and supplemented more lagging indicators like arrears alone, in contrast with IAS 39, where loans were either classified as impaired or non-impaired. However, supervisors have observed that banks' implementation of IFRS 9 can sometimes deviate from good risk management practices.
- IFRS 9 has led to improved understanding of the interaction between economic scenarios and credit losses, which is important to sound credit risk management during periods of volatility. Enhanced disclosures around the impact of economic scenarios on credit losses have proved crucial to help the market assess the risk of further capital and earnings volatility, in particular to help the market understand the incremental credit losses that could occur in downside economic scenarios.
- It is increasingly apparent that, while economic scenarios can be quickly adjusted, it takes time to estimate the losses that will emerge in each scenario and, where necessary, to make adjustments and changes to models. The Committee has observed that the objectives of IFRS 9 can be hard to fulfil in times of increased economic uncertainty. Without adequate disclosures, this makes it difficult to interpret and compare provision levels when the market strives for information most. For example, some ECL models have lacked maturity,

and the availability of relevant and reliable data remains a challenge. The Committee recognises that robust and well governed use of model adjustments and collective approaches have proved to be crucial to support timely provisioning as the effects of stress on vulnerable sectors emerge.

- Supervisors continue to observe a range of impairment practices with IFRS 9, which hampers comparability, and a lack of consistency in disclosures to enable users to understand and compare banks' exposure to credit risk. The Committee acknowledges the benefits of maintaining IFRS 9 as a principles-based standard that does not set bright lines or a mechanistic approach, and recognises the need for prudential regulators and supervisors to continue to monitor and promote high-quality and consistent practice. However, we believe there is an opportunity for the IASB to refine some aspects of the standard as set out below.

Question 3 – Determining significant increases in credit risk

a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

The Committee supports IFRS 9's use of the notion of significant increases in credit risk (SICR) to determine whether to recognise 12-month or lifetime credit losses. IFRS 9 is superior compared with IAS 39 by requiring reporting entities to incorporate all available forward-looking information and informed judgment in their assessment, and so relying less on lagging indicators such as arrears.

Notwithstanding the requirements for the determination of significant increases in credit risk, the Committee has observed a broad spectrum of practices, which hampers comparability. Supervisors have observed instances where banks with similar portfolios have reached significantly different stage allocations despite similar sets of facts and circumstances, which hinders the timely recognition of losses. Practices that may delay timely recognition of losses include:

- Inconsistent definitions of thresholds for the significance of a change in the risk of default occurring. For example, some banks define significance with reference to a number of notches of downgrade in internal or external credit ratings, but the decision on how many notches of downgrade would be considered as significant varies across banks. Supervisors have also seen examples of banks relaxing thresholds selectively for riskier portfolios, or defining significance using absolute thresholds that are unrelated to the risk at origination.
- Inconsistent use of collective SICR assessments.
- The use of model adjustments solely for the measurement of ECL without making stage transfers for the underlying risk.
- Inconsistent use of qualitative and quantitative SICR indicators.

Diversity in setting thresholds to determine the significance of a change in the risk of default

The Committee appreciates the clear guidance, expressed in IFRS 9.5.5.9, that an entity shall use the change in the risk of a default occurring to determine SICR. However, there is little guidance to assist with determining whether such a change is significant.

Across banks who use the risk of a default occurring to define SICR, supervisors have observed weaker practices for setting thresholds which may delay recognition of whether an increase in credit risk has occurred. These include:

- Setting arbitrarily high thresholds above the levels where credit deterioration can be reliably discerned from existing models, and also above the levels used to inform risk management, pricing or capital planning.
- Using approaches to relax thresholds of significance for portfolios which are more likely to deteriorate in credit quality that smooth loss recognition across portfolios with different risk characteristics and thus mask the difference between risky and conservative lending.
- Defining significance in terms of absolute thresholds which are set at such a high level that they correspond to extending the low credit risk exemption to exposures that do not qualify as low credit risk.

To justify these practices, some banks argue that the IASB intended that compensation for bearing credit risk should be used to determine significance. The Committee believes the link between compensation for credit risk and risk of default is not sufficiently strong to be used to determine whether a significant increase in credit risk has occurred. This is because the compensation banks charge for bearing credit risk is not solely driven by risk of default, and can be heavily influenced by other factors such as risk appetite and broader market conditions.

The Committee invites the IASB to explore whether the concept of significance can be clarified by linking it to concepts such as decision-relevant changes in credit risk and/or the notion of discriminatory power for metrics that are used to assess changes in credit risk. For example, changes of credit risk should be considered decision-relevant as soon as different credit qualities can be discerned with sufficient reliability. This could include, for example, consideration of the interaction of the determination of SICR and the determination of watchlist or special mention assets for risk management or regulatory purposes. For banks using quantitative models, the notion of discriminatory power is often a key metric used for monitoring the performance of credit models and would contribute to ensuring that entities connect SICR with existing validation and model governance.

Use of collective SICR assessments to supplement individual SICR assessments

While there is helpful material in the standard that would support use of collective SICR assessments, supervisors observe that it has not been consistently applied by banks. The Committee recommends that the IASB develop further guidance and illustrative examples to support the use of collective SICR assessments to:

- assess the impact of emerging risks and events that may not yet be reflected in individual assessments; and
- determine the need to move pools of higher-risk loans to stage 2.

The Committee believes that such assessments are crucial to support timely identification of credit deterioration, particularly in vulnerable sectors and borrowers. While we believe the objective of IFRS 9 is clear, supervisors have observed a range of practices regarding the level of evidence needed to transfer assets on a collective basis. This includes cases where banks consider collective SICR assessments as an accounting option, as IFRS 9.B5.5.1 notes that a collective SICR assessment "may be necessary". In addition, supervisors have observed a range of practices regarding the use of collective SICR assessments in combination with model adjustments, which we expand on in our response to question 4.2 below.

The complex nature of the risks banks face can often make it challenging to group clients by shared risk characteristics. In those cases, IFRS 9 supports a top-down approach for collective stage transfers (IFRS 9.B5.5.6 and IE39). However, supervisors have observed that some banks refrain from adopting such "top-down" approaches as it would require additional effort, eg to group clients by several risk dimensions at a time and determine the aggregated effects.

The Committee believes that further guidance and illustrative examples from the IASB would support greater consistency; where there is a lack of borrower-specific data to inform individual assessments, entities may revert to complementary estimation techniques incorporating evidence (eg sample-based assessments of clients, or simulations). The Committee believes such guidance would greatly enhance the relevance of the three-stage approach in IFRS 9.

Thirty-day past due rebuttable presumption

The 30-day past due rebuttable presumption in IFRS 9 currently focuses on overdue contractual payments. The Committee believes that it would be helpful for the IASB to consider enhancing the application guidance with regard to revolving facilities (eg overdrafts exceeding facility limits for more than 30 days) and to clarify that this rebuttal presumption would be less insightful in circumstances where loan repayments occur less frequently (eg semiannually).

Question 4 – Measuring expected credit losses

a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

b) Can the measurement requirements be applied consistently? Why or why not?

In responding to (a) and (b), please include information about forward-looking scenarios (see Spotlight 4.1), post-model adjustments or management overlays (see Spotlight 4.2) and off-balance sheet exposures (see Spotlight 4.3), as relevant.

4.1 Forward-looking scenarios

Requirement to use multiple economic scenarios

IFRS 9 contains relatively little guidance in relation to forward-looking scenarios, despite the use of multiple economic scenarios now being commonplace amongst banks, and crucial for timely recognition of ECL.

The Committee suggests the IASB add further guidance and clarification in the standard to support preparers in capturing the impact of economic uncertainty on ECL estimates. In particular, the Committee encourages the IASB to incorporate elements of the guidance produced by the IFRS Transition Resource Group (ITG) into IFRS 9, in particular paragraph 49 from the ITG's December 2015 meeting.

ITG guidance was developed prior to IFRS 9 implementation and addresses the narrow issue of whether a single forward-looking scenario meets the objective of an unbiased measure of ECL. Industry practice has moved on significantly since IFRS 9 was introduced, and it is now commonplace for banks to consider more than one downside scenario.

IFRS 9 5.5.18 requires a reporting entity to "consider the risk or probability that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low". IFRS 9 B5.5.42 also refers to "at least two outcomes". The Committee notes that a reader, particularly one unaware of the accompanying ITG guidance, could misinterpret this text as meaning that only two binary outcomes need to be considered.

Range of economic scenarios

It is important that banks understand the economic factors that affect credit risk, and that they capture the uncertainty in those economic factors in the range of scenarios used to ensure credit losses are identified in a timely way. This matters because of the potential for credit losses to respond non-linearly to changes in economic scenarios and the tendency for this non-linearity to be more significant in more severe but plausible downside scenarios.

Use of multiple economic scenarios is now commonplace amongst banks, and it is increasingly common for additional severe but plausible downside economic scenarios to be considered when economic uncertainty is elevated. However, supervisors have observed that banks apply different approaches to capture the impact of economic uncertainty regarding the determination of: (i) the range or severity of the economic scenarios to be considered: (ii) the probability weights assigned to those scenarios; and (iii) the approaches to revert to long-term averages beyond the period for which banks prepare detailed forecasts of economic conditions.

The Committee believes that it is crucial for timely recognition of ECL that the downside scenarios banks are using to calculate ECL be sufficiently severe to adequately explore the range of outcomes that may affect their portfolios, including vulnerabilities in specific sectors or segments. ECL may be delayed if the range of scenarios is too narrow to capture material non-linearities or inappropriate probabilities are assigned to scenarios such that the range of scenarios, in substance, functions like a single scenario approach.

The Committee suggests the IASB consider introducing guidance and additional examples to explain the objective of including multiple economic scenarios. This could enable greater consistency, and support users, preparers, auditors and regulators in challenging instances where multiple scenarios are used but are not impactful. This guidance could also encourage preparers to establish the key drivers of non-linearities for their portfolios, and to understand where material non-linearities arise in the distribution of potential credit losses. This analysis could be used to show whether the scenarios and weightings chosen are broad enough to ensure that material non-linearities are properly reflected in the ECL estimate.

Estimation of credit losses

In estimating future recoveries, it is important that banks consider the cash flows from different potential recovery strategies. These may include possession of collateral, or alternate strategies such as sales of loans. A wide range of cash flow scenarios may be possible, and there may be uncertainty over which recovery strategy will apply or how effective that strategy will be under different economic conditions.

The Committee believes that the IASB should consider enhancements to the guidance in IFRS 9 to help address issues relevant to a robust estimation of cash flows from recovery. The Committee also believes that it would support consistent application of the standard, and improve timely recognition of ECL, if the IASB were to clarify the need to capture uncertainty in an entity's recovery strategy in its estimation of ECL. Banks with loans and other credit exposures will usually have a planned or preferred strategy for recovering the value of defaulted exposures. Uncertainty as to whether a planned strategy will or can be implemented in practice could be reflected in the ECL estimate by giving different cash flow scenarios (including adverse strategies that may be required in the event that the preferred strategy is not feasible) the appropriate probability weights in line with the likelihood of the bank pursuing each potential recovery strategy and its ability to do so.

Reasonable and supportable information

The use of historical data to model future credit losses is a significant challenge. Banks have experienced difficulties in assessing how economic shocks affect different portfolios as the risk environment has evolved and is different from that of the recent past.

The Committee's view, informed by observing banks' practices and engagement with stakeholders including banks and auditors, is that information can be "reasonable and supportable" despite:

- having a low or remote likelihood of occurring; or
- the effect of that event on the credit risk or the amount of ECL being uncertain.

This view has been informed through the Committee's observations of bank practices and its engagement with key stakeholders. In other words, information that relies on judgment may still be reasonable and supportable. The Committee believes that further guidance on what was intended by the phrase "reasonable and supportable" would aid application of the standard.

We also note that the additional guidance produced by the IASB during the pandemic was helpful in clarifying that while it is likely to be difficult at the time of an economic shock to incorporate the specific effects on a reasonable and supportable basis, changes in economic conditions should be reflected in macroeconomic scenarios applied by entities and their weightings. The guidance further clarified that, if the effects cannot immediately be reflected in models, post-model overlays or adjustments will need to be considered. The Committee recommends that relevant parts of that text be incorporated into the guidance within IFRS 9, referring to future economic shocks rather than Covid.

4.2 Post-model adjustments or management overlays

Post-model adjustments or management overlays (PMAs) have been used extensively to compensate for model and data limitations and to ensure ECL reflects actual credit risk expectations in the light of emerging novel credit risk factors that may not be appropriately reflected in core ECL models – for instance, inflation, changing interest rates, energy supply and climate or geopolitical risks. These novel credit risk factors are clear indicators of changes in credit risk for particular sectors or cohorts of borrowers.

The Committee recognises the role played by such adjustments related to model performance and has emphasised that these adjustments are needed under various circumstances but should be subject to robust governance and supported by appropriate documentation and sound methodologies.

While use of model adjustments has proved important to ensure timely recognition of credit losses, there is limited guidance in the standard to support their proper use. Supervisors have observed weaker practices related to PMAs that may result in a potential underestimation of ECL and a delay in SICR recognition. This includes:

- The use of PMAs aimed at covering a broad spectrum of unrelated risks and/or multiple portfolios or borrower groups without a clear distinction of the amount related to each risk (ie so-called "umbrella overlays"). These approaches tend to be highly approximate and may not be sufficiently risk-sensitive to result in timely ECL measurement.
- The use of PMAs that increase ECL without a corresponding transfer of exposure to stage 2. This includes where PMAs are applied at the level of the ECL model output only, as opposed to at the risk parameter level (eg probability of default or loss-given-default), without risks being consistently considered as part of a collective SICR assessment.

The Committee believes that when risk factors driving the use of PMAs at the ECL level are linked to the risk of default (eg uncertainty about the impact of high inflation on debtors' payment capacity), their effects should also be taken into account in the assessment of SICR. For these purposes, the Committee suggests the IASB clarify that in such cases complementary measures, such as collective SICR assessments, are expected to be applied to ensure that the requirements of IFRS 9 are met.

Supervisors have observed instances where management judgment comprises a significant proportion of ECL, but where the financial statements include limited qualitative or quantitative information of the effect of PMAs which may reduce the comparability and usefulness of information to users of the financial statements. Please refer to the response to question 9 for our comments on specific disclosure requirements for model adjustments.

Question 7 – Application of the impairment requirements in IFRS 9 with other requirements

Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

Users of financial statements, including prudential supervisors and investors, rely to a large extent on ECL disclosures to assess the credit quality of banks' loan portfolios.

In some jurisdictions, acquisition of loans at a portfolio level or as part of a business combination are common transactions for banks. Supervisors in those jurisdictions have observed that, when loans are acquired, the change in ECL amount and provision coverage ratio disclosed may not allow for a proper understanding of the credit risk of the acquired portfolio in the books of the acquiring bank.

Applying the IFRS impairment requirements to business combinations can produce counterintuitive outcomes. For instance, the acquiring bank might report a lower overall provisioning coverage on a consolidated basis, even if the acquired loan portfolio is of lower credit quality compared with the bank's existing loans. Such an improvement in overall provisioning coverage might suggest that the acquiring bank's credit risk has decreased when it has increased.

To enable a better understanding of the changes in the credit risk profile of the acquiring bank, the IASB could consider encouraging banks acquiring loans to make additional disclosures drawing upon information that would be readily available as part of the loan acquisition process. This approach would limit the cost to preparers and would also provide useful information for users.

Specific helpful information that could be disclosed might include:

- The lifetime ECL valuation allowance for credit risk included within the fair value of the loans acquired. It would be helpful if the IASB made clear how such information is linked to the disclosure requirement in IFRS 3 para B64(h)(iii) in the case of a business combination or more generally when a loan portfolio is acquired.
- Separate line/row items in the roll forwards relating to the changes in the ECL allowance and the carrying amount for loans purchased over the reporting period. This will allow a better understanding of the ECL amounts being held for the loans acquired within the reporting period.

Question 9 – Credit risk disclosures

a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

The Committee agrees with stakeholders who have highlighted a lack of consistency, hence limiting comparability of information, in the type and granularity of information disclosed for credit risk. Some examples of high quality disclosures are not explicitly provided in the standard and have been developed through active engagement between regulators, banks and users.

The Committee suggests the IASB consider adding more specific disclosure requirements in IFRS 7 on model adjustments and sensitivity to different economic assumptions and providing further guidance on granularity for different types of lending. The Committee notes that for non-credit lending institutions, the suggestions below may be less relevant.

Disclosures about post-model adjustments or management overlays

It is common for banks to make adjustments to the outputs from the core models when estimating ECL that may involve both significant management judgment and estimation uncertainty.

Supervisors have observed that banks do not consistently make relevant disclosures about model adjustments, even where those adjustments are potentially material. Model adjustments are often subject to different governance processes and they may also be subject to different levels of judgment compared with the modelled element of ECL estimates.

The Committee recommends that the IASB consider amending IFRS 7 to require specific disclosure to be given about model adjustments. This could be achieved by adding to paragraph 35G that entities should consider whether elements of an ECL estimate, for example modelled techniques and model adjustments, are subject to different inputs, assumptions and estimation techniques. Where model adjustments are material, these disclosures could include:

- tabular disclosure of material adjustments, including comparatives;

- a description of the adjustments, including the criteria for release, an explanation of material movements in the period, and details about the portfolios and stages that are affected by these adjustments and how the adjustments have been taken into account in disclosures about different economic scenarios; and
- consideration of whether the effect of adjustments is material for other ECL disclosures – for example, whether adjustments have been included or excluded from sensitivity analysis.

Sensitivity to different economic assumptions

ECL estimates are often subject to a high degree of estimation uncertainty for banks given the complexity of the interaction between credit losses and economic conditions, and the longer time horizons over which credit losses are estimated.

Supervisors have observed that banks do not consistently provide sensitivity analysis to help users understand the assumptions made about future economic conditions and the sensitivity of the ECL estimates to those assumptions. A possible reason is that, while there are specific sensitivity disclosure requirements in other IFRS standards (eg IFRS 13 paragraph 93(h) and IAS 19 paragraph 145), and IFRS 7 contains requirements regarding sensitivity analysis of market risk, there are no specific requirements for sensitivity analysis of ECL estimates. The Committee believes the requirements in these other standards have proved valuable to users' understanding of sources of estimation uncertainty.

The Committee believes IFRS 7 could be enhanced by requiring disclosure of how the ECL estimate might differ had alternative inputs or assumptions been made. For example, requiring entities to disclose ECL with a 100% weighting applied to the central scenario, an upside scenario and a downside economic scenario underlying the reported ECL estimate. The IASB could consider adapting similar requirements in IFRS 13 paragraph 93(h) that require information to be disclosed about sensitivity to key inputs if changing one or more inputs to reflect reasonably possible alternative assumptions would change fair value significantly. The Committee notes that while IAS 1 paragraphs 125–129 contain requirements regarding estimation uncertainty and judgments, sensitivity analysis is provided only as an example of the type of disclosure an entity may make.

Granularity across different types of lending

The Committee notes that it has been challenging for supervisors to use public disclosures to compare ECL coverage across global banks due to inconsistent granularity of information across different types of lending.

IFRS 7 requires quantitative disclosures to be given based on information provided internally to key management personnel (KMP) (IFRS 7 paragraph 34). Nevertheless, the Committee recommends that the IASB consider whether the requirements on classes and credit risk disclosures (IFRS 7 paragraphs 6 and 35D) could be more specific for disclosures about ECL, in order to give users more relevant and comparable information that recognises differences in risk between types of lending, in particular to require disclosures by class of exposures based on similar credit risk characteristics. These would be additional, where applicable, to disclosures by classes reported to KMP.

In addition, the Committee suggests the IASB consider whether the application guidance could be amended to say that entities participating in financing activities, including commercial and investment banks, should disclose asset classes split between different types of lending, including retail secured, retail unsecured and corporate lending. The Committee believes this would provide benefits to users of banks' financial statements, while not imposing any additional burden on nonbanking entities. This disaggregation would be particularly relevant to the roll forward disclosures (IFRS 7. 35H and I), as well as to disclosures about sensitivity and model adjustments (see above).