ICAEW REPRESENTATION
69/15

SUPPLEMENTARY DRAFTING SUGGESTIONS

GUIDANCE ON ACCOUNTING FOR EXPECTED CREDIT LOSSES

Following the ICAEW Representation 68/15 recently submitted to the Basel Committee, please find enclosed a set of Supplementary drafting suggestions.

This document does not form part of Representation 68/15 but rather it is a collection of drafting suggestions as provided by members of our working party. The working party includes representatives of the accounting and auditing profession and major banks.

The drafting suggestions do not represent the views of ICAEW but are intended to provide assistance in clarifying certain points within the guidance.

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DRAFTING SUGGESTIONS

Para	Suggested Changes	Comments / Rationale
1 [2]	We recommend that the Committee give further consideration to the intended objective and scope of this guidance. If the intention is to remain consistent with paragraph 1, guidance that does not relate to the assessment and measurement of allowances should be deleted. Paragraphs that could be deleted include paragraphs 27, 31 and 58. A critical review of the text may also identify other areas which are not targeted at the objective.	The paragraph states that "the scope of credit risk practices is limited to those practices affecting the assessment and measurement of allowances…" We agree with this scope and suggest that text that duplicates existing regulatory guidance or that is more related to general credit risk management and underwriting practices is deleted from the final guidance so that it can better targeted at its objective.
9	Suggest removing the first sentence of paragraph 9. We recommend that the Committee removes these repetitions.	The first sentence of paragraph 9 is redundant. In effect it says that the Committee expects banks to apply ECLs to all exposures in the scope of the ECL model. Similar points are made on specifying that the guidance is applicable regardless of whether the bank is assessing credit risk or measuring ECL on an individual or collective basis in Principle 4; paras 9, 19(c), 24(b), 24(k), 36, 52, 53, 61, 86, A5, A9, A14, A52
10	We would suggest adding "in accordance with the objectives of the relevant accounting requirements" to the end of the penultimate sentence, and replace "produce a robust measurement of expected credit losses" with "meets the requirements".	It is not clear what the term "adequate" means in the context of compliance with accounting requirements. It is also not clear what "robust" means in relation to the measurement of allowances.
11 [12]	We recommend adding "commensurate with the size, nature and complexity of their lending exposures" to the end of the paragraph.	We believe that a high-quality implementation of ECL accounting should be by reference to Principle 1. Even the largest, most sophisticated banks are unable to apply the most advanced regulatory approaches to all portfolios due to lack of sufficient statistical data and other modelling limitations and similar considerations will apply to ECL accounting models. Additionally, the use of complex models may not result in a better outcome when reliable and supportable data is limited. The impact of increased complexity and costs may also be immaterial, for example, when lending is fully secured by high quality collateral.
12		Per paragraph 11
13	We suggest deleting 'such as debt securities' and more clearly defining what is meant by "lending exposures" in the scope of the guidance and "other bank exposures" which are not.	We believe that the reference to 'debt securities' (paragraph 13) does not work well for a document with international relevance. Neither IAS 39 nor IFRS 9 differentiate between loans and securities and some items held by banks as if loans may be legally securities and vice versa. As a result it is not clear to what extent the Committee expects the more detailed guidance to apply to non-lending exposures such as purchased securities and lease receivables and unfunded lending exposures such as written financial guarantee contracts. Given the general accounting principle that consistent accounting policies should be applied, it is doubtful how guidance intended to influence accounting policies could take items in the scope of IFRS 9 outside the scope of the guidance. However, we agree that much of the guidance should not be applicable to items which are subject to risk management that is different to that applied to lending exposures.

Para	Suggested Changes	Comments / Rationale
14	We would suggest changing to "…failures is lending of poor credit quality…"	The third sentence in the paragraph could be read as a significant cause of bank failures is poor credit quality of the bank which we do not believe is the intention of the Committee
15	We would suggest adding a sentence to this paragraph that clarifies this point along the lines set out in the comments/rationale.	This paragraph may be the appropriate place to specifically acknowledge that accounting requirements do not apply to immaterial items and, since these supervisory requirements do not contradict the applicable accounting standards, they are not intended to change materiality decisions which are made by management.
19	(c) The third bullet point should be deleted or at the very least the word "requirements" should be deleted and "as noted in Principle 3" added to the end of the sentence. We recommend the committee consider the concept of materiality and re-phrase the guidance. We recommend that the Committee removes these repetitions.	(c) The document should be neutral as to whether allowances are determined individually or collectively. There are concerns that the current guidance on grouping of lending exposures in Principle 3 is not consistent with Principle 7 which encourages the credit risk assessment and measurement process to form the basis for common systems. This third bullet point seems to be mandating that assessment must be done at both the individual and collective levels, which may not be the case either because there is no other relevant information available at the collective level or because there is only a collective assessment which includes all relevant information. Such specificity is unhelpful. Guidance in the document is sometimes phrased without regard to materiality or cost of implementation, even if it could result in only marginal improvement to financial reporting. Examples of such guidance are listed below: 19(c) "….accurately rates differing credit characteristics…" 21 "The Committee expects banks to maximise the extent to which"….. "Using the same information and assumptions across a bank to the maximum extent possible"…. 30 "…the Committee expects it to consider the full spectrum of information"….. 38 "The credit risk system must capture all lending exposures"…. 41 "…tools for accurately assessing the full range of credit risk"… 48 "…to reasonably ensure that those groupings are accurate and up to date"… A28 "take full account" "any relevant regional differences" A29 "Accurate measurement of the drivers of credit risk…" Similar points are made on the need to consider "forward-looking information and macroeconomic factors" in paras 19(c), 24(b), 24(j), 24(l), 34, 40, 44, 50, 51, 52, 56, 59, 60, 69,A5, A23, A28(a).
P2	We suggest rewording the last sentence of the paragraph to "The measurement of allowances should build upon these methodologies". We recommend that the Committee removes these repetitions.	It is not clear what "robust" and "timely" mean in relation to the measurement of allowances. The intention should not be that allowances are required to be measured in a biased manner or that losses are recognised at an earlier stage than the recognition of reversals of losses. Similar points are made on the need for comprehensive documentation of methodologies, processes and key judgements exercised, including changes in assumptions in Principle 2 and paras 21,22, 24(g), 24(o),29(b), 32(b), 41,43, 58(c), 58(d), 59, 69, 77

Para	Suggested Changes	Comments / Rationale
21 [24(j)]	1) The paragraph should be reformulated along the lines of Principle 7 so that the sound credit risk assessment and measurement process is expected to form the basis for accounting and capital adequacy purposes, but the differences between these requirements must be addressed to avoid bias. 2) Delete 'interpretation'.	Paragraph 21 states that the same information and assumptions should be used consistently for regulatory and accounting purposes to "the maximum extent possible". Similarly, paragraph 24(j) proposes the use of "forward-looking information that is reasonably available" whereas IFRS 9 uses the term "reasonable and supportable". We would prefer terms that are consistent with IFRS 9. As a result: 1) The paragraph could be read as requiring the forward looking adjustments needed for ECL accounting to be applied to lending decisions and in capital adequacy calculations or for the prudential capital adequacy inputs (e.g. 1 in 20 downturn LGDs) to be used for ECL accounting calculations which would in fact introduce bias rather than reduce it. 2) The reference to 'interpretation' is wrong in this context, since interpretation of the accounting framework is not related to the use of information and assumptions across the bank.
24 [80]	(a) The wording should refer to a 'process designed to equip'. (b) Suggest replacing 'macroeconomic' with 'economic'. (c) Consider deleting or modifying to only catch groupings created for ECL accounting only. (f) Suggest deleting "Examples of factors that may require qualitative adjustments are the existence of concentrations of credit risk and changes in the level of such concentrations, increased usage of loan modifications, changes in expectations of macroeconomic trends and conditions, and/or the effects of changes in underwriting standards and lending policies" in light of IFRS 9 requirements as risk concentrations are not directly relevant to the assessment of ECL. (h) More helpful might be to refer to the triggers that might prompt a reassessment of the methods, inputs or assumptions. (j) & (k) Add "where applicable" to front of sentences since this is only applicable for loss rate approaches. (q) Last sentence should be deleted. It is not a requirement since it could lead to double counting for factors already included in the models. It should be made clear that such judgemental overlays are only relevant for factors not included in the models and there should be clear governance as to when they are required, how they are calculated and that they are removed when no longer required.	(a) A method cannot include a process that 'equips'. A method can only be designed to achieve an outcome and cannot on its own guarantee that outcome, as that will be dependent on execution. (b) The statement that macroeconomic factors 'may be at the local level' is a contradiction and even the reference to 'regional' is questionable, given that 'macroeconomic' is normally defined as relating to a national economy. (c) Where collective evaluations are based on the same underlying groupings used for risk management and capital adequacy calculations, this seems unnecessary. (f) This sub paragraph indicates that a qualitative adjustment might be necessary for "changes in expectations of macroeconomic trends and conditions". We do not see how qualitative adjustments due to credit concentration are consistent with the requirements of IFRS 9. (h) Any approach that describes the situations in which methods, inputs or assumptions would need to change would be uninformative, since it would merely be when they are no longer appropriate. (j) & (k) Where PD, LGD, EAD components are determined, this will already be on a validated, statistical basis. (q) Refers to 'collective allowances', while paragraph 80 states that the Committee expects the reconciliation of the allowance account to be provided separately for "collective and individual allowances", implying those that are measured collectively or individually. However, the example given in paragraph IG 20B of the Implementation Guidance of IFRS 9 refers to lifetime losses that are assessed collectively and individually, implying those that are determined to require lifetime ECLs on a collective or individual basis. Did the Committee intend to add a new requirement? Note, also, that if a measurement overlay is used to include forward looking information, then the allowance for an individual asset would be measured partly individually and partly collectively. Splitting out these two components would not seem to be very informative. The concept of a 'collective allowance' makes more

Para	Suggested Changes	Comments / Rationale
		sense in the context of IAS 39 than IFRS 9.
26	Suggest adding "consistent with usual model development practices" to the start of the sentence.	It should be made clear that the approach to considering and applying information for ECL models is no different to other modelling requirements, i.e. that the expectation is not that more factors than are necessary for the model to work well are needed.
27 [28(h)]	This paragraph could be deleted without any impact on the ECL guidance. At the very least the relevance to ECL should be explained and point 27 (i) deleted (it can be made clear that this is a non-exhaustive list if retained). Given the other guidance that all factors should be considered, the point of highlighting particular factors in 28(h) is unclear, although this is the only point with direct relevance to ECL and perhaps could be retained in the next paragraph.	Relevance of paragraphs 27 and 28 to ECL is not clear. These seem to be matters to consider in lending decisions and not ECL. It is also not helpful to suggest banks assess "all other relevant information".
28	This paragraph could be deleted without any impact on the ECL guidance. At the very least the relevance to ECL should be explained and point 27 (i) deleted (it can be made clear that this is a non-exhaustive list if retained). Given the other guidance that all factors should be considered, the point of highlighting particular factors in 28(h) is unclear, although this is the only point with direct relevance to ECL and perhaps could be retained in the next paragraph. (e) Consider removing the reference to 'charge-off'.	Relevance of paragraphs 27 and 28 to ECL is not clear. These seem to be matters to consider in lending decisions and not ECL. It is also not helpful to suggest banks assess "all other relevant information". (e) "Charge-off" is a mere accounting concept and is not a factor that affects the bank's ability to recover amounts due.
29 [P4]	(a) Consider adding "or components of the ECL calculation" to this paragraph. (b) We would prefer that this term ('reasonably estimable') be deleted as it creates a further level of complexity in introducing a threshold of what is a period that reasonable (and conversely an unreasonable) in the estimation of future cash flows given the estimation of future credit losses overall is inherently a judgement. If considered necessary, the point can be rephrased to refer to banking having a policy for extending economic scenarios beyond the period directly covered by economic forecasting. (c) Consider deleting "for less sophisticated banks" and moving this point to Principle 4 to keep all the guidance on forward looking information in one place. (d) Suggest clarifying this point to ensure it is not read as suggesting backtesting of economic scenarios themselves.	(a) Where a risk component approach is used, how the risk components change as a result of forward looking factors should be understood and documented. It seems excessive in this situation to require a link to the ECL estimate itself which is the product of the risk components. (b) This sub-paragraph talks about documenting the process for determining the time horizon, including "how ECL is estimated in the period following that which is reasonably estimable" and then in a footnote, indicates that the term "reasonably estimable" is not included in IFRS 9. While we understand the Committee's aim in this paragraph, the wording may be misleading without the context that has been explored in the US discussions. (c) We feel that the sophistication of a bank is not relevant to whether or not is uses external experts in developing forward looking economic scenarios. It is the quality and independence of the forecasting that is important and its governance and not whether it is internally or externally produced. (d) Purpose of backtesting must be clear about whether factors have a correlation with different outcomes. There is no point in testing whether or not the forward looking economic scenarios actually occurred.
30 [64, footnote 19]	Consider adding "consistent with usual model development practices" to the first sentence and modify "full spectrum of information" with "that is reasonable and supportable". Delete reference to "regulatory" and "other regulatory reporting" in the last sentence.	ECL accounting does not require complex stochastic modelling of different possible economic scenarios. In developing the modelled correlations, it should be clear that ECL models is no different to other modelling requirements, i.e. that the expectation is not that more factors than are necessary for the model to work well are needed. We agree that stressed economic scenarios are not the best estimate scenarios used for accounting. However, this is made less clear by the use of the phrase "regulatory

Para	Suggested Changes	Comments / Rationale
		expected loss estimates should be consistent with inputs to other relevant estimates …" and other regulatory report.
31	The paragraph should be deleted from the guidance.	Paragraph does not relate to ECL measurement but sound underwriting practices.
P3	We propose that the principle should refer to "processes" and "groupings".	There are likely to be different groupings for different purposes, for example, groupings building on risk management processes and Basel models and other groupings to be responsive to information that is not included in existing risk management processes and Basel models (e.g. forward looking information).
33	1) We propose amending "will develop" to "have developed". Also "that ECL allowances are properly estimated" in the last sentence should be included in a new last sentence that captures "The credit rating system and other parts of the credit risk assessment process may form important components of the ECL measurement process." 2) Could delete since guidance about credit risk rating systems is general guidance not directly relevant to ECL measurement. If retained, consider moving the whole section to Principle 7 and reword all the references to "credit risk rating system" to ECL measures or otherwise clarify that including forward looking elements is not expected in the underlying credit ratings system but may be an additional factor to consider if ratings are also used to derive ECL.	1) In accordance with Principle 7, banks should already have comprehensive credit risk assessment processes and the accounting should merely build on these rather than implying that monitoring is only necessary for the accounting. 2) Several P3 paragraphs relate to credit risk ratings which seems to not fit with Principle 3 (may fit better in Principle 7 since credit risk ratings may be a way of providing a strong basis for common systems). More importantly, these paragraphs imply that the credit ratings used for risk management and which may underlie Basel risk components should include forward looking elements. The forward looking considerations are only needed for the accounting.
34	Same as in 33(1) 1) These paragraphs could be deleted or should at least be modified to delete "form the basis for assigning credit risk ratings and thus" to decouple the credit risk ratings from the forward looking considerations that need to be added for accounting only. Given the need to incorporate forward looking information in the accounting but not in the regulatory capital, it seems of limited value to require that the rationale for this difference should be documented.	Same as in 33(1) 1) This paragraph could imply that the credit rating system used for credit management should incorporate forward looking information. While such information needs to be incorporated for ECL measurement, the accounting requirements should not drive risk management to this extent. It is difficult to understand why there should be expected to be consistency between credit risk ratings when the system is used for accounting and regulatory capital purposes. The same underlying system can be used, but there need to be adjustments given their different purposes. This seems better described in paragraphs 65-68 and so could be deleted here.
35	Same as in 33(1) Suggest deleting	Same as in 33(1) We believe this paragraph is about risk management generally and not relevant for this section.
36	Same as in 33(1) 1) If retained, these paragraphs should be redrafted to state that where credit risk ratings are used as the basis for ECL accounting, they must be responsive to changes in credit risk and additional information may be needed for accounting purposes in order to include forward looking information. 2) The paragraph should also be amended to make it clear that the use of 'portfolio' in this context is closer to the 'bottom up' assessment in IE 38.	Same as in 33(1) 1) This paragraph is more about credit risk management than ECL and it also implies that credit risk ratings must be used for ECL. While they can be used as part of the underlying information, this is not an accounting requirement and may in any case be more applicable to wholesale rather than retail lending. The credit risk system need not incorporate forward looking information since this would result in the accounting requirements driving risk management. 2) This paragraph also refers to a series of factors relevant to subsequent assessment that should be equally relevant for the initial

Para	Suggested Changes	Comments / Rationale
		assessment. This wording implies that forward looking information is not used in the initial assessment. Also, while significant increases in credit risk may be assessed on a portfolio basis, it would be unusual to assess credit ratings on a portfolio basis unless the change in conditions affects the whole portfolio. For instance, when a top down approach is used to assess deterioration, as set out in IE 39 of the Implementation Guidance to the standard, it would be unlikely that all floating rate borrowers or an arbitrary 20% of such borrowers would be downgraded.
37	Same as in 33(1) If retained, these paragraphs should be redrafted to state that where credit risk ratings are used as the basis for ECL accounting, they must be responsive to changes in credit risk and additional information may be needed for accounting purposes in order to include forward looking information. We also note that the guidance considers an effective credit risk rating system as one that allows a bank to "track changes in credit risk, regardless of the significance of the change…" We agree such a system would certainly be effective but do not agree that a system that does not update for every increment of credit risk is not effective.	Same as in 33(1) Paragraphs are more about credit risk management than ECL and also imply that credit risk ratings must be used for ECL. While they can be used as part of the underlying information, this is not an accounting requirement and may in any case be more applicable to wholesale than retail. The credit risk system need not incorporate forward looking information since this would result in the accounting requirements driving risk management. Credit risk ratings may not form the basis of the accounting in any case, for example, for retail loans.
38	Same as in 33(1) "individual" should be deleted to ensure that it is possible for collective as well as individual assessment to be made.	Same as in 33(1) This paragraph can be read as preventing collective assessments.
39	Same as in 33(1)	Same as in 33(1)
40	Same as in 33(1) 1) If retained, these paragraphs should be redrafted to state that where credit risk ratings are used as the basis for ECL accounting, they must be responsive to changes in credit risk and additional information may be needed for accounting purposes in order to include forward looking information. 2) If it is the Committee's intention that his paragraph is use to provide guidance similar to paragraph B5.5.17(j) of IFRS 9 then we recommend that the language of IFRS 9 is used to aid clarity.	Same as in 33(1) 1) Paragraph is more about credit risk management than ECL and also implies that credit risk ratings must be used for ECL. While they can be used as part of the underlying information, this is not an accounting requirement and may in any case be more applicable to wholesale than retail. The credit risk system need not incorporate forward looking information since this would result in the accounting requirements driving risk management. Credit risk ratings may not form the basis of the accounting in any case, for example, for retail loans. 2) We are unclear what guidance the last sentence of this paragraph provides in relation to the impact of guarantee or collateral on debtor's paying capacity. If it is intended for this paragraph to provide guidance similar to paragraph B5.5.17(j) of IFRS 9 then we recommend that the language of IFRS 9 is used to aid clarity.
41	Same as in 33(1) 1) This paragraphs could be deleted or should at least be modified to delete "form the basis for assigning credit risk ratings and thus" to decouple the credit risk ratings from the forward looking considerations that need to be added for accounting only. Given the need to incorporate forward looking information in the accounting but not in the	Same as in 33(1) 1) This paragraph could imply that the credit rating system used for credit management should incorporate forward looking information. While such information needs to be incorporated for ECL measurement, the accounting requirements should not drive risk management to this extent. It is difficult to understand why there should be expected

Para	Suggested Changes	Comments / Rationale
	regulatory capital, it seems of limited value to require that the rationale for this difference should be documented. 2) We would clarification from the Committee on what is meant by "full range of credit risk".	to be consistency between credit risk ratings when the system is used for accounting and regulatory capital purposes. The same underlying system can be used, but there need to be adjustments given their different purposes. This seems better described in paragraphs 65-68 and so could be deleted here. 2) We are unclear what is meant by "the full range of credit risk". Does the Committee intend for this to cover to all sources of risk or all possible outcomes?
42	Same as in 33(1) 1) If retained, these paragraphs should be redrafted to state that where credit risk ratings are used as the basis for ECL accounting, they must be responsive to changes in credit risk and additional information may be needed for accounting purposes in order to include forward looking information. 2) If the Committee meant that the bank should carry out a formal review as often as it reports to shareholders, paragraph 42 could be revised to: "e.g. at least annually or more frequently if the bank issues interim financial statements". 3) Paragraph 48 could be perhaps reworded to say the groupings should be reviewed when significant circumstances change. It would be helpful if these expectations were harmonized using consistent language.	Same as in 33(1) 1) Paragraph is more about credit risk management than ECL and also implies that credit risk ratings must be used for ECL. While they can be used as part of the underlying information, this is not an accounting requirement and may in any case be more applicable to wholesale than retail. The credit risk system need not incorporate forward looking information since this would result in the accounting requirements driving risk management. Credit risk ratings may not form the basis of the accounting in any case, for example, for retail loans. 2) Does the wording "if required in a jurisdiction" refer to where the entity reports to shareholders more often than once a year? If so, in practice, entities may have some discretion as to the frequency with which they prepare interim financial statements, so 'if required' is not quite right. Or does the Committee expect a formal review once a year unless banking regulatory requirements would require a formal review more often? 3) Similarly, paragraph 48 indicates that "the group of exposures assigned should receive a periodic formal review (e.g. at least annually or more frequently if required in a jurisdiction) to reasonably ensure that those groupings are accurate and up to date". Paragraph A18 discusses the need for timely transfer to LEL as soon as credit risk has increased significantly. How this is consistent with paragraph 42 and 48 that seem to indicate an annual review might be sufficient?
43	Reference along these lines could be added to the paragraph.	Paragraph could usefully acknowledge that where the groupings are already used for risk management and regulatory capital purposes, they will already be subject to appropriate review and documentation.
44	1) We propose that this section be re-drafted to clearly differentiate groupings which are already used for risk management and regulatory capital purposes which have been created under proper model governance, review and validations where frequent re-groupings are likely to drive unnecessary differences in the common systems set out in Principle 7 from ad hoc groupings that may be needed to incorporate forward looking information for accounting purposes. However, it should also be clear that any judgemental overlay process for ECL must be properly controlled and governed so that it is clear why the overlay is needed and when it will be removed. 2) To be consistent we propose this amended to be in line with IFRS 9:5.5.53 so they share	1) Groupings must be appropriate to their purpose and where their primary purpose is risk management and regulatory capital, forward looking information may not be a relevant driver. While the appropriateness of the groupings will be reviewed regulatory as part of model review and validation, it is not expected to change frequently since this could adversely impact the historical data series and otherwise reduce the quality of the model. Where additional groupings are needed for accounting purposes, then forward looking information may be a more relevant driver. Groupings may be needed for models or for judgemental overlays where the factor is not capable of being modelled or is not yet in the models. Much of the current text is likely to be more relevant to

Para	Suggested Changes	Comments / Rationale
	'similar risk characteristics'.	judgemental overlays than models since models are more likely to be recalibrated or otherwise adjusted to deal with new information rather than being completely rebuilt under different groupings. 2) We note paragraph 44 refers to grouping exposures based on them being 'homogenous'. In practice loans will never be homogenous.
45	Same as in 44 We would welcome the Committee clarifying this paragraph in line with the comment or it can be deleted as the point is already addressed.	Same as in 44 We feel that this paragraph is unclear. Presumably it means that the groups should be sufficiently granular that increases in credit risk in some sections of the group should not be obscured, but that point is already made in the next paragraph. In any case, IFRS 9 requires that groupings share similar risk characteristics and this language should be used consistently.
46	Same as in 44 1) This paragraph could be read as essentially requiring constant re-grouping of collective assessments, which would not be practicable. Risk management will require the identification of shared risk characteristics to determine groupings and this should not be expected to change frequently. Top down as well as bottom up determination of collective allowances is permitted by IFRS 9. 2) The second sentence should refer to "information obtained that would indicate" changes in credit risk after initial recognition (see paragraph 48) and logically would follow that paragraph.	Same as in 44 1) Paragraphs 46 and 47 should include references to scenarios where collective assessment of whether there has been a significant increase in credit risk leads to recognition of lifetime ECL only for a portion of a portfolio. Without such clarification, the statement: "Where changes in credit risk after initial recognition affect only some exposures within a group, those exposures must be segmented out of the group into relevant subgroups, to ensure that the ECL allowance is appropriately updated" could be interpreted as not permitting recognition of lifetime ECL on a portion of a portfolio (IFRS 9.B5.5.6).
47 [A27]	Same as in 44 1) Consider amending these paragraphs to say that "a portion of the group or a sub-group" should migrate or will transfer…"	Same as in 44 1) Paragraph 47 states that when the credit risk increases on a group basis, the entire group should migrate to a higher credit risk rating. Combined with the assertions made in paragraph A27, this implies that the whole group should subsequently be measured on a lifetime ECL basis. This is supported by paragraph A35, which states "the Committee expects that, in instances where it is apparent that one or more exposures in a group have experienced a significant increase in credit risk, the relevant group or subgroup will transfer to LEL measurement of ECL". We feel that this is in conflict with the standard and believe that this is not the intention of the Committee as the collective assessment is required to be made collectively. It would also not be consistent with the top-down approach shown in Example 5 of the Implementation Guidance to IFRS 9, in which only 20% of floating rate loans are deemed to be measured on a lifetime ECL basis.
48	Same as in 44	The same change recommended in paragraph 44 should be made to paragraph 48 so segmentation should arise when they no longer share similar risk characteristics. Currently paragraph 48 could be read as requiring re-segmentation frequently given paragraph 44 refers to exposures being homogenous and paragraph 48 refers to re-segmentation 'whenever relevant new information is received or a bank's expectations of credit risk have changed.'

Para	Suggested Changes	Comments / Rationale
P4	We suggest that references to the Basel Core Principles are deleted, unless the Principles are to be amended.	We feel that Principle 4 is clumsily worded. How could ECLs calculated under IFRS 9 and US GAAP both be said to be 'consistent' with what the Basel Core Principles describe as 'adequate'? We note that the Basel Core Principles refer to "If […] provisions are deemed to be inadequate for prudential purposes (e.g. if […] the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital". The 'losses expected to be incurred' originally envisaged by the Core Principles were presumably regulatory 12m ECLs, and the text was drafted to reflect an incurred loss accounting model. If, alternatively, these expected losses are taken to refer to lifetime ECLs, then the wording would seem incompatible with the phased recognition model in IFRS 9 that starts with 12m ECLs and also conflicts with the IFRS 9 accounting for purchased or originated credit-impaired financial assets. Instead, this sounds more like the FASB lifetime ECL model.
50	We suggest that the paragraph is amended to be aligned with IFRS 9 wording.	This paragraph states that "the information set considered must go beyond historical and current data, to include forward-looking information and macro-economic factors", while IFRS 9.B5.5.52 indicates "in some cases, the best reasonable and supportable information could be the unadjusted historical information depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered." Further, IFRS 9.B5.5.30 states that "the estimate of expected credit losses does not require a detailed estimate for periods that are far in the future – for such periods, an entity may extrapolate projections from available, detailed information.
51 [59]	As drafted the Committee is requiring banks to incorporate more information than it is required by IFRS 9, which requires an entity to measure expected credit losses in a way that reflects "reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions" (IFRS 9.5.5.17). We would welcome the Committee to amend the paragraph wording to be aligned with IFRS 9 wording.	Paragraph 51 requires the "ECL estimates should always incorporate the expected impact of all reasonable available, forward-looking information and macroeconomic factors" and paragraph 59 states that "a bank must use its experienced credit risk judgement to thoroughly incorporate the expected impact of all reasonable available forward-looking and macro-economic factors on its estimates of ECL".
52	We question whether the Committee meant to write 'simple techniques such as averages…' – if this is the case we suggest amending this paragraph to align with this	We feel that the reference to 'simple averages' is hard to understand. We would expect any average would at least be weighted by the size of the loans or defaults.
53 [P6]	This paragraph could be deleted or alternately we propose "different potential scenarios" be replaced with "a wide range of possible economic circumstances". Add "and supportable" to "reasonable information and refer to "relevant to the drivers of credit risk to the group…"	We are not clear what the paragraph adds to the commentary for Principle 6. ECL accounting does not require complex stochastic modelling of different possible economic scenarios. While this is not to limit the possibilities considered, it would be compliant to determine a single, internally consistent scenario which represents the best estimate. Such an estimate would, by definition, not be overly optimistic (or pessimistic) and will need to be reasonable and supportable to avoid being "purely subjective".

Para	Suggested Changes	Comments / Rationale
		Text should be aligned with IFRS 9 and it should be clarified that it is information about the drivers of credit risk that is relevant (not all the information possibly available).
54	Consider adding "including" before "when assessing…"	Paragraph could be read as implying that estimates should only be unbiased when considering collateral.
58	1) This paragraph could be deleted and replaced with a cross reference to existing CRR articles or related guidance. Any ECL specific commentary could then be added which would clearly stand out, perhaps these might relate to forward looking perspectives. 2) We suggest providing an explanation of what is meant by "plausible stresses" or else delete the reference.	1) We believe that this paragraph duplicates, to a great extent, existing guidance on model validation (for example, Articles 188-191 in CRDIV Regulations). As a result it is unclear whether this paragraph introduces additional specific points relating to ECL. 2) We questions why there is reference to "plausible stresses". Does this mean that the model can accommodate relatively stressed assumptions, or is there a suggestion that stressed assumptions form part of the calculation of ECLs (which in our opinion conflicts with the standard)
P6	We suggest amending to "especially in the consideration of reasonable and supportable forward looking information and macroeconomic factors".	The forward looking information and macroeconomic factors and their impact on ECL should be reasonable and supportable. The use of judgment should not be expected to result in unsubstantiated outcomes.
59 [51]	We propose deleting "thoroughly" and amend "all reasonably available" to "reasonable and supportable forward looking information and macroeconomic factors".	The words "thoroughly" and "all" may imply unreasonable expectations. See also comments made for paragraph 51.
60 [61]	1) Could consider combining paragraphs 60 and 61 or delete the comment about "significant degree of unavoidable subjectivity". 2) Propose amending sentence to align with IFRS 9 requirements.	1) Unavoidable subjectivity can be avoided by meeting the requirements for the information and its impact to be reasonable and supportable. This support may be by formal statistical links but could be reasoned and supported judgement. 2) This paragraph proposes that "costs should not be avoided on the basis that a bank considers them to be excessive or unnecessary" whereas IFRS 9.B5.5.51 suggests "an entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost and effort and that is relevant to the estimate of expected credit losses".
61 [60]	Same as in 60(1)	Same as in 60(1)
62	We propose adding a full stop and deleting the text after "experienced credit judgement".	We believe there is no IFRS 9 requirement to consider the point in the credit cycle in developing macroeconomic forecasts and it seems unlikely that this could be reasonable and supportable.
63	1) Propose amending sentence to align with IFRS 9 requirements. 2) Suggest replacing "in the latter case" with "in either case".	1) This paragraph states "In estimating ECL, banks may determine either a single amount or a range of possible amounts" whereas IFRS 9.B5.5.7 requires that expected credit losses reflect a probability-weighted amount and IFRS 9.B5.5.18 requires an entity to "consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs by reflecting the possibility 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". 2) In all cases, the estimate should be appropriate as defined.
64 [30]	We would welcome the Committee clarifying either paragraph 30 or 64 as indicated but only	Same as in 30. We believe this paragraph is making the same

Para	Suggested Changes	Comments / Rationale
	retaining one.	comment as para 30. Only one is necessary and, in either case, it should be clear that the stressed economic scenarios are not the best estimate scenarios used for accounting, but that the process used for linking forward looking information with risk components may have a common basis.
69	1) We would welcome clarification on the basis for calculation ECL for regulatory purposes and financial reporting purposes. 2) We propose deleting "well documented" and replace with "the nature of these differences is understood".	1) It would be beneficial if the guidance was clearer when it expects the basis for calculating ECL for regulatory purposes and financial reporting differences to be different (e.g. point in time versus through the cycle PDs). This would help implementation and encourage the use of common data and processes only where it is appropriate. 2) The last sentence could imply detailed reconciliations are required on say a monthly basis between the expected loss calculations and the ECL calculations.
71	Suggest moving this paragraph after paragraph 4.	We believe this paragraph would fit better in the Objective and Scope section.
75	1) This paragraph could be deleted. Otherwise: 2) Propose deleting "Given that management and users have differing objectives" 3) We suggest the wording be amended to "to highlight policies, definitions and judgments made that are integral to the estimation…"	1) To the extent the guidance duplicates disclosure requirements in the accounting framework, we believe it is unnecessary to repeat. To the extent the guidance attempts to include additional disclosures, we propose a more formal collaborative process between users and preparers, such as through the EDTF initiative. 2) We do not believe it is correct that management and users have different objectives in terms of providing transparent disclosure and its relevance to the paragraph is unclear. 3) The bank's basis for grouping lending exposures into portfolios with similar credit characteristics is not a 'policy' or 'definition' – it is a judgment made in making an estimate.
76	Same as in 75(1)	Same as in 75(1)
77 [79]	Same as in 75(1) 1) We propose deleting this paragraph or at least make it clear that it is only applicable for accounting groupings that are different from those that underlie the common systems under Principle 7. By extension, we also propose deleting "for exposures on which ECL are measured on an individual basis" from paragraph 79. 2) We recommend that process documentation is dealt with under Principle 3.	Same as in 75(1) 1) It is unclear why disclosure principles should differ depending on whether allowances are determined on a portfolio or individual basis and collective assessments may not be integral to all methodologies. 2) Paragraph 77 also requires a 'documented process' which we believe duplicates Principle 3.
78	Same as in 75(1)	Same as in 75(1)
79	Same as in 75(1) 1) Propose deleting "for exposures on which ECL are measured on an individual basis"	Same as in 75(1) 1) It is unclear why disclosure principles should differ depending on whether allowances are determined on a portfolio or individual basis and collective assessments may not be integral to all methodologies.
80 [24(q)]	Same as in 75(1) 1) We propose removing the reference to "recoveries of amounts previously written off" and make this a separate disclosure recommendation. 2) We suggest replacement of 'that this will be provided separately for collective and individual allowances' with 'that lifetime loss allowances will be provided separately for those exposures assessed individually and	Same as in 75(1) 1) We believe that the statement that "recoveries of amounts previously written off" should be an item in the allowance reconciliation is incorrect under IFRS. A write-off is a de-recognition event and the accounting for a recovery will not involve the allowance account. 2) Paragraph 24 (q) refers to 'collective allowances', while paragraph 80 states that

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	collectively'.	the Committee expects the reconciliation of the allowance account to be provided separately for "collective and individual allowances", implying those that are measured collectively or individually. However, the example given in paragraph IG 20B of the Implementation Guidance of IFRS 9 refers to lifetime losses that are assessed collectively and individually, implying those that are determined to require lifetime ECLs on a collective or individual basis. Did the Committee intend to add a new requirement? Note, also, that if a measurement overlay is used to include forward looking information, then the allowance for an individual asset would be measured partly individually and partly collectively. Splitting out these two components would not seem to be very informative. The concept of a 'collective allowance' makes more sense in the context of IAS 39 than IFRS 9.
81	We suggest that the reference to 'product concentrations' is deleted or amended accordingly.	We questions whether product concentrations etc. should have been referred to before paragraph 81 in principle 8? We believe the requirement would be better positioned if the requirement to disclose came before the requirement to regularly review. Also, product concentrations seem to be a separate issue from ECLs.
P9		
82	(b) We propose "and forward-looking information and macroeconomic factors" is deleted or at least moved to its own point that is clearly about ECL for accounting only. (c) Point could be deleted or rephrased along the lines "the bank's processes for identifying increases in credit risk on a timely basis ensuring ECL allowance estimates are adjusted accordingly". We would also welcome clarification for the emphasis on "riskier exposures". (f) We propose deleting "has been exercised in a robust manner" – as we believe 'properly documented' would be sufficient. (g) We propose deleting "provided to the regulators".	(b) We are unclear whether the intention is that forward looking information would be included in the underlying processes for identifying, classifying and monitoring credit risk. This could drive significant differences in current credit risk processes for information that only needs to be considered for accounting purposes. (c) It is unclear the relation between risk appetite and the identification of riskier exposures, meaning those that increase in credit risk after origination, which is when it is relevant to ECL measurement. It is unclear why the timely identification of changes in credit risk is emphasized for "riskier" exposures when it is already required by the draft Guidance for all exposures (see paragraphs 42, 48 and 87). (f) It is unclear how it can be ascertained that management judgement has been exercised in a robust manner. (g) It is unclear why the forecasts should be provided to the regulators (unless they are requested)
P10	We propose replacing "produce a robust measurement of expected credit losses" with "meets the requirements".	It is not clear what "robust" means in relation to the measurement of allowances.
84	(a) We propose deleting "timely". Instead the Committee could include that the procedures should result in outcomes that are sensitive to changes in cash flow estimates, etc. (b) We propose deleting "collectively assessed". (c) We believe the meaning of this requirement is unclear. We would welcome further clarification from the Committee or propose it is deleted. (e) We propose that this point is deleted or perhaps clarify that the bank's internal processes for measuring ECL are built on sound credit risk assessment (along the lines of Principle 7).	(a) It is unclear why the procedures should be 'timely' other than to meet the reporting deadlines. (b) We believe the guidance should be indifferent to whether allowances are assessed individually or collectively. (c) The reference to the allowance being appropriate in accordance with the relevant accounting requirements and in relation to the total credit risk in the bank's portfolio, implies that the allowances could be appropriate in accordance with relevant accounting requirements and yet not be appropriate in relation to the total credit risk exposure. We do

Para	Suggested Changes	Comments / Rationale
		understand how this can be correct. (e) It is unclear how this would be assessed.
89 [88]	We propose that this paragraph is deleted.	We believe this point is appropriately addressed in paragraph 88.
90 [88]	We propose that this paragraph is deleted or alternatively add this as a point (d) within paragraph 88	We believe this point is appropriately addressed in paragraph 88.
A1	In line 5, we recommend revision to "exposures, and that (unless the exposure is fully secured by collateral) a nil allowance will be rare" and that footnote 26 is deleted. The warning in footnote 26 that valuation of collateral may change over the life of the loan, would warrant an entire paragraph in the main text, that an ECL model requires continued monitoring of collateral values. 2. We recommend that the word 'impairment" in the first line is deleted.	1.Contrary to what is written in A1, nil allowances will not be rare where the exposures are adequately collateralized, such as for much mortgage lending. This should be addressed in the main text rather than explained in the footnote, for two reasons: a) As many exposures will be fully collateralized, a nil allowance will be quite common. b) The message in the second half of the footnote: "as valuation of collateral may change over the life of the loan" seems too important to be relegated to a footnote. 2. It should be noted that IFRS 9 is not 'the impairment standard'.
A2	1. We recommend that the committee replace with "reasonable and supportable forward looking information". 2. We recommend that last sentence to be amended to say: "The methodology used to estimate 12 month ECL should be responsive, allowing for the timely recognition and measurement of changes in loss expectations."	1. As per paragraph 53, IFRS 9 does not require stochastic modelling using different economic scenarios and it would not be possible to assert that "<u>the</u> range of possible future scenarios" has been reflected. 2. The last sentence may imply an allowance that is not unbiased. We agree that banks should adopt an active approach to managing credit risk, but note that paragraph A2 implies the active approach relates to the timeliness of measuring 12-month expected losses. As IFRS 9 only requires measurement at the reporting date this paragraph implies measurement of 12-month expected losses needs to be more frequent than at each reporting period end. Similarly paragraph A18 states that an exposure must be "transferred to LEL measurement as soon as credit risk has increased significantly" which could imply a continuous monitoring of credit risk for accounting purposes as opposed to "if at the reporting period an exposure has increased significantly it must be transferred to LEL". As noted in our covering letter the reference to a 'range of possible future scenarios' should be reconciled with the IFRS 9:B5.5.41 to reflect that at a minimum the range of possible scenarios may be limited to two scenarios.
A3	The beginning part of the paragraph could be deleted. If the intention is to emphasise that there are circumstances that mean the change in risk of a default occurring over the next 12 months is not a reasonable approximation, this could be clearly noted without stating that the risk of default occurring over the expected life of the financial instrument <u>must</u> be considered.	IFRS 9 itself is clear on the meaning of 12 month ECL so it may not be necessary to provide this emphasis. The emphasis on considering the risk of default occurring over the expected life of the financial instrument seems to misquote IFRS 9. Per 5.5.9 entities use the change in the risk of default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. Per B5.5.13 the change in risk of default occurring over the next 12 months may be a reasonable approximation of the change in the lifetime risk of a default occurring. It is unclear whether this paragraph prohibits the use of 12-month ECL to assess whether there has been a significant increase in credit risk. The first sentence in this para appears to indicate that a risk of default over the expected life must be used. However, the following sentence

Para	Suggested Changes	Comments / Rationale
		seems to say that in some case use of 12-month ECL may be appropriate. IFRS 9.B5.5.13states that "for financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of default occurring over the next 12 months may be a reasonable approximation of the changes in lifetime risk of default occurring." The second sentence says that 12-month expected credit losses are losses "due to loss events that could occur in the next 12 months". However, the first sentence of this paragraph and the definition of '12-months expected credit losses' in Appendix A to IFRS 9 refer to "default events" rather than "loss events".
A4 [A5]	We recommend that the last two sentences of paragraph A5 and footnote 29 are deleted or 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. Ie, replace "Furthermore" with "In addition, in order to consider whether there has been a significant increase in credit risk, …"	Taken together with footnote 29, these paragraphs could imply that a significant increase in credit risk is akin to the unlikeliness to pay criteria in Basel. It is unclear whether the last two sentences in paragraph [A5] are intended to provide guidance on significant increase in credit risk or add to the list of elements provided in Basel, in particular by including forward-looking information in the Basel definition of default. This lack of clarity could result in stage 2 being defined as default and all Basel PD models needing to be recalibrated to predict loans going into stage 2 rather than the current Basel definition of default. We assume that such circularity of definition is not the intention of these paragraphs.
A5	Same as in A4	Same as in A4
A6	We recommend adding "in accordance with normal model development disciplines" to the start of the paragraph. 2. We recommend that reference should be added to "undue cost and delay" in order to clarify use of the term "reasonably". 3. We would prefer to see consistent language being used with reference to 'reasonable' and 'supportable'.	1. The "all" and emphasis on actively incorporating information could be read as overriding normal model development practices which consider a wide range of information in model development but include only information that is shown to impact the result in the final model. 2 We note IFRS 9 clarifies what is reasonable by considering whether the obtaining the information would lead to 'undue cost and delay'. Given the wording in IFRS 9 we propose that the same term should be used in this guidance. 3. Similar to our comment above on paragraph 21 we note 'reasonable' is not accompanied with 'supportable', yet 'supportable' is referred to in paragraphs A19 and A49. We doubt the difference in language is intentional.
A7	We would recommend that the last sentence is deleted or modified 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."	For exposures subject to 12-months expected credit losses, this paragraph introduces a requirement that "a bank must be able to demonstrate that these exposures have not experienced a significant increase in credit risk since initial recognition". IFRS 9 does not contain such requirements and instead requires that entities identify financial instruments for which credit risk has increased significantly.
A8	1. We recommend that the first and last sentences should be deleted or that these sentences are moved to other guidance on underwriting/credit risk management practices. 2. We recommend clarifying that lifetime ECL allowances are only required when there has been a significant increase in credit risk and realign the wording in the paragraph with IFRS 9.	1. High credit risk is not defined and it may be inappropriate for accounting guidance to include assumptions about loan origination and recommendations for sound underwriting and credit risk management practices in the IFRS 9 appendix. 2. Paragraph A8 notes that loans with a higher risk have a greater volatility of credit risk and have a more readily rapidly decline in credit quality.
A9	1. We recommend that the word "robust" be deleted or changed to "will allow timely	1. As drafted and including the word "robust" this

Para	Suggested Changes	Comments / Rationale
	recognition of changes in credit risk to be reflected in the allowance”. 2. Presumably what this paragraph is trying to say is that if the credit risk is considered to have increased, then this should be reflected in the 12 m ECL measurement before the increase is sufficiently significant that the allowance is measured on a lifetime basis. This could be achieved by deleting “taking into account the migration of credit risk”.	could imply a biased or unsymmetrical implementation. 2. The wording ‘taking account of the migration of credit risk’ is confusing since it implies that the 12m ECL requirement should anticipate ‘migrations’ to a lifetime ECL measure, which would not be consistent with the standard. Further, only exposures can ‘migrate’, credit risk cannot.
A11	We recommend deleting the wording “and that grouping of financial instruments does not obscure information”.	It may be that demonstrating that a grouping does not obscure information is an impossibly high hurdle. We think it should be sufficient that the group meets the criteria in IFRS 9 to share risk characteristics.
A13	We would consider not retaining the whole paragraph as it could be referenced to Principle 4 (which may be amended as indicated above) retained. If a sentence on groupings is required, we recommend that it should be redrafted along the lines that “Banks should not obscure information about significant increases in credit risk by grouping financial instruments with different risk characteristics.”	This paragraph could be read as requiring individual assessments as there may be groupings made on the basis of shared risk characteristics but they may not all have identical credit risk.
A15	We recommend that if the paragraph is to be retained, the second sentence should be changed to: “Where post-origination credit risk has increased to such an extent that it is unlikely to be compensated by the interest rate charged, this is likely to represent a significant increase in credit risk.” We recommend also considering the consistency with A29 which, rightly, recognises that changes in PD might have different significance depending on the starting point.	This paragraph seems assume that pricing methodologies are solely focussed on credit risk rather than incorporating a range of other factors such as the general price of credit risk, changing capital requirements, competitiveness considerations, etc. It also does not seem to take adequate account of the instance where loans may be originated at fairly wide credit grades for the same pricing. Therefore it seems to be overstating the link between pricing and credit risk when concluding that “any” post-origination increase is significant. It also does not seem to be aligned to the understood meaning of “significant”.
A20	We recommend the committee to remove these repetitions.	Similar points are made in paragraphs A22, A23, A59 regarding significant increases in credit risk may occur before a financial instrument becomes past due (i.e. delinquency is a lagging indicator)
A22	We recommend that the wording “to be used on its own” should be added after “appropriate” to the last sentence.	Last sentence could imply that delinquency data should not be used in ECL. Given that this information is used as part of the underlying credit risk management and as part of the framework for the regulatory requirements, this seems to overstate the point that is just that delinquency information is backward looking and should not be used on its own.
A23	1. We suggest these paragraphs (A23 and A24) should not be retained and if retained, the sentence “(such as the sector from which they earn their primary income)”, should be changed “supported by persuasive evidence” to “banks will need to obtain reasonable and supportable information about the linkages…” and add “One way of doing this is to “ to the last sentence. 2. It is not clear what the use of this word is supposed to mean in his context. Could “objective” just be deleted?	1. These paragraphs seem to be quite detailed and specific. If interpreted as requirements, they could impair bank’s ability to determine how best to apply forward looking information and could also imply that unintended consequences such as requiring customers to re-verify their affordability factors, which may not be legally possible or commercially reasonable. For instance: In paragraph 23 “supported by persuasive evidence” may be interpreted as a different standard of proof than the “reasonable and supportable” as required by IFRS 9. 2. The word ‘objective’ in ‘objective’ level of credit risk’ may not be correct – it is the nature of credit risk that it is never objective.
A24	Same as in A23.	Same as in A23.
A27	1 & 2. We recommend replacing “any of conditions (a) to (f) below” with “ IFRS 9 B5.5.17.	1. It is unclear why these particular points, which are included in IFRS 9 B5.5.17 (although worded

Para	Suggested Changes	Comments / Rationale
	and deleting points (a) to (f). If that is not acceptable, at a minimum delete footnote 33 and amend "change in" to "a significant increase in credit risk since inception" in point (a). .	differently), have been singled out for particular attention. It would be more consistent with high quality implementation if banks were advised to consider all the indicators in IFRS 9. Some of the points that are included are unclear (e.g. what is "an internal credit assessment summary indicator" or "deterioration of relevant factors"?) and they appear to add nothing to the existing guidance in IFRS 9. Perhaps more importantly, point a and footnote 33c 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. Credit risk is only one factor that influences pricing. Pricing is a lagging indicator since the deterioration on the previous lending will have to be identified before it can be factored into the credit spread within the pricing. 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 recognized where there is no significant increase in credit risk, and is not compliant with IFRS 9. 2. Further, the rebuttable presumption refers to "any increase in credit spread", which would be impossible to apply if the bank cannot distinguish increases in credit spread from changes in gross margin due to other factors. Hence, as worded, the test is unworkable. The paragraph adds 7 other factors to be considered on the top of those factors that are included in IFRS 9:B5.5.17 (a)-(p) noting that "the presence of any of conditions (…) would suggest that there has potentially been a significant increase in credit risk". IFRS 9 lists factors that "may be relevant in assessing changes in credit risk". We consider the guidance places weight that such factors are presumptively an indicator of an increase in credit risk which is not the approach for the comparable guidance in IFRS 9. Where the credit risk element of loan when priced is 'higher' than that of a loan previously originated we do not consider that this always evidence that that there has been a significant increase in credit risk. Similarly, where a loan is priced "lower" we do not consider this is evidence that there has been a significant decrease in credit risk. Given this we believe the paragraph could be amended to reflect that the credit risk component should be 'significantly higher' from the credit risk element when previously originated.
A28	Suggest "full account" is deleted and replaced with "consider to the extent information is available without undue cost and effort". .	This paragraph may imply that factors that are not relevant (or reasonable and supportable) should be taken into account. See comments in Principle 6 with regard to regional differences.
A29	1. Consider explaining the conclusion that readers are expected to draw from the last sentence or replace with a statement from IFRS 9 B5.5.15 that credit analysis is multifactor and holistic. 2. What is possibly meant to be said here is that some grades or rating categories can span a	1. It is possible that a significant increase in credit risk could occur before lending exposures experience even a one notch down grade. This is reasonable because credit risk analysis is multifactor and holistic. However, it is not clear what the point of the statement in its context. Is it that notches should not be used for transfer (which would unduly restrict implementation

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	large range of PDs so that there can be a large increase in PD within a single grade. Possible wording might be, "a small change in the grading can be associated with a large increase in the probability of default." If this was the Committee's intended meaning, we recommend that the second half of the paragraph starting with "It is also necessary" is replaced by "Depending on how finely graded is a bank's exposure grading system, it is possible that a significant increase in credit risk might occur before an exposure is downgraded." Alternatively, if the Committee was concerned that loan gradings may not reflect all the information required to make an individual assessment, the wording would have to be completely different. As we have already noted in the cover letter, the guidance would be much clearer, if those sections appropriate to loans assessed individually were separated from those that relate to a collective assessment. In any event, the term 'a notch' should be avoided, or else defined.	approaches) or that credit rating processes must be sufficiently frequent to pick up changes in credit risk or that more than notches should be considered (or that an approach based on mechanically comparing notches should also incorporate credit judgement, which may be impractical for large volumes of retail loans)? *2*. The statement that "small changes in credit quality can be associated with a large increase in the probability of default" is contradictory – we question how credit quality would be defined if this statement were true. The wording later in the paragraph that "it is necessary to look beyond how many "notches" a rating downgrade entails because the change in PD for a one notch-movement is not linear"… reads oddly, since (as already stated in this paragraph) the IFRS 9 ECL model is based on relative rather than absolute increases in credit risk, and so a non-liner gradation system would seem to provide what is needed. There would only be a problem if a one notch movement was based on a linear and absolute change in PD. Also in paragraph A29, a 'notch' can be read to refer to the smallest gradation used by the credit rating agencies, in which case it is unclear what would be meant by "it is possible that a significant increase in credit risk could occur before lending exposures experience even a one-notch downgrade". In what circumstances would a decline smaller than one notch be significant? Or is the Committee trying to make the point that a loan grading system may not provide all the information necessary to assess whether there has been a significant increase in credit risk, i.e. where this will need to be assessed on a top down portfolio basis?
A30	Consider expanding A29 to capture the idea in IFRS 9 B5.5.9 so both ideas are illustrated in paragraph A29.	The paragraph may be incomplete because it does not also acknowledge that the pricing of instruments based on their original credit rating will also take into account the propensity for the rating to change therefore its sensitivity of default probability,
A31	1. The section could be deleted since the point is adequately addressed in the main document. At the minimum, change last sentence to refer to an appropriate governance process and delete the rest of the sentence.	1. It is difficult to see how any governance process can reliably <u>validate</u> judgements let alone that negative factors are counterbalanced by positive ones. All forecasts are just that and cannot be verified in hindsight. Applying forward looking factors is equally important for measurement and transfer and there is already a lot in the guidance on forward looking information and its governance. Also paragraph A31 seems to mix statistical significance and the IFRS 9 significant increase criterion, and the point it makes would be clearer without this potential source of confusion.
A32	We would recommend deleting this paragraph since the points about credit rating processes being sensitive to risk are already set out in a lot of detail in Principle 3.	Given that determining significant deterioration will involve some comparison of current probability of default with probability of default at origination, it does not seem logical to assert that any change in internal credit rating results in significant deterioration as this paragraph appears to do. As the lowering of a credit rating does not necessarily equate to a significant increase in credit risk we question whether an alternative example may better illustrate the point
A33	We would recommend that the committee consider deleting "differences in the seniority of individual exposures".	Since determination of whether there has been significant deterioration is about the change in the risk of default occurring rather than the

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		change in the amount of expected loss (IFRS 9 4.4.9), it is not clear that differences in seniority should affect the decision.
A34	1. We would recommend that the committee consider deleting this paragraph or clearly redrafted to address judgemental overlays where changing economic conditions that are not adequately addressed in the models may need to be included by an ad hoc grouping which will need to be properly governed. 2. The wording should refer to “shared risk characteristics” as used in the standard. Hence “remain homogenous” in paragraph A 34 would be written as “continue to share risk characteristics”.	1. Please see the comments on paragraphs 44-48 where grouping has already been extensively discussed. This paragraph seems unnecessary and could be read as essentially requiring individual assessments since it is not possible to otherwise ensure an increase in credit risk of an individual exposure could not be masked – homogenous groupings are unlikely to be identical. 2. Generally, the word “homogenous” is too strong when considering exposures managed on a portfolio basis. The best that can probably be achieved is that a portfolio will be ‘reasonably homogenous’
A35	1. & 2.We would recommend that the committee consider aligning the paragraph with IFRS 9. Given the comments on paragraphs 40-48 it may be more useful to suggest that there may be circumstances, particularly relating information that cannot be readily included in the models, where an adjustment by way of a collective overlay may need to be applied to individually or collectively assessed financial instruments but that in those circumstances the Committee expects a properly governed process so it is clear why the adjustment is necessary and when it will be removed.	1. It appears that this paragraph misrepresents IFRS 9 B5.5.1 which says that it may be necessary to perform the assessment on a collective basis, rather than that it is required. The last sentence does not seem to be clear – if it is apparent that an exposure has experienced a significant increase in credit risk, than it must be possible to identify it. It is unclear whether this paragraph is intended to prevent individual assessments or collective assessments or is actually suggesting situations when judgemental overlays 2. The paragraph refers to “the relevant group or subgroup” that needs to be transferred to LEL whereas paragraph A36 refers to the “proportion of the group”. We are unsure of the relationship between these paragraphs. We question whether the proposed guidelines are trying to align with the ‘bottom up’ and ‘top down’ approaches in IFRS 9:IE38 & 39.
A36	1. We would recommend that the committee consider aligning the paragraph with IFRS 9. Given the comments on paragraphs 40-48 it may be more useful to suggest that there may be circumstances, particularly relating information that cannot be readily included in the models, where an adjustment by way of a collective overlay may need to be applied to individually or collectively assessed financial instruments but that in those circumstances the Committee expects a properly governed process so it is clear why the adjustment is necessary and when it will be removed. 2. We suggest this is rewritten as “Consistent with paragraph IE 39 of the Implementation Guidance to IFRS 9”.	1. It appears that this paragraph misrepresents IFRS 9 B5.5.1 which says that it may be necessary to perform the assessment on a collective basis, rather than that it is required. The last sentence does not seem to be clear – if it is apparent that an exposure has experienced a significant increase in credit risk, than it must be possible to identify it. It is unclear whether this paragraph is intended to prevent individual assessments or collective assessments or is actually suggesting situations when judgemental overlays may be required. 2. IE39 is not part of IFRS 9 and should not be given such prominence in the guidance.
A37	We recommend that paragraph A37 is simplified to say, ‘”Significant” should not be equated with statistical significance”. Meanwhile, in paragraph A31 we suggest the deletion of “the deterioration in a particular factor is statistically very small (judged in relation to past data on it), or”	The wording of paragraph A37 can be improved. It is obvious that the ‘significant’ notion in IFRS 9 has nothing to do with the notion of significance in statistics. But the next clause, “meaning that the assessment should not be based solely on quantitative analysis” is a non-sequitur. The point is not about qualitative versus quantitative analysis, but that ‘significant’ has nothing to do with statistical significance.
A39	We would recommend deleting “robust”. Rather than suggest how review could be performed, just refer to the need for model review as noted in the main part of the document. This model review will consider whether the factors being used need to be changed.	It is unclear how such a review would be “robust”. Given that the transfer is not based on a defined event, it will be difficult if not impossible to determine with hindsight whether or not the transfer has occurred at the “right” point, particularly where forward looking assumptions have been applied. While the

Para	Suggested Changes	Comments / Rationale
		suggestion is not written as a requirement, it may be unrealistic. Rather the whole IFRS 9 modelling approach will be subject to the model review and validation process and this may be sufficient for the point.
A40	We would recommend that the committee consider removing reference to bias from the paragraph and then consider whether it adds anything to the section on the use of 30 days past due criterion. If it does not, then the whole paragraph can be deleted.	We do not agree that the use of practical expedients would introduce bias. 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 where it was considered that their use would be consistent with the principles of the standard. Their inclusion avoids each entity wishing to apply the simplification having to prove that the impact is immaterial, which is often impractical. While attempting to restrict their use arguably does not result in the guidance being incompatible with IFRS 9, the rationale should not be linked to bias or to a lower quality implementation.
A41	We would recommend that the committee consider deleting "of this kind".	Our understanding of IFRS 9 is that whether an entity assesses a significant increase in credit risk on a collective or individual basis that either approach should lead to the same measurement outcome. Consequently we are confused that paragraph A41 states that a use of a practical expedient that in the Committee's view introduces bias by delaying the recognition of LEL can be overcome by using a collective assessment to "correct for identified bias".
A42	We would recommend that the committee consider aligning the paragraph with IFRS 9.	This paragraph refers to modification of "contractual terms and resulting cash flows" whereas IFRS 9.B5.5.12 refers to modification of "contractual cash flows".
A43	We would recommend that the committee consider rewording this paragraph in line with our consideration.	This paragraph refers to "transfers to LEL for obligors whose credit quality has significantly deteriorated". However, and entity may have multiple exposures to a single obligor, only some of which are measured at lifetime ECL. This is because an exposure is subject to transfer if its credit risk – rather than that of the obligor – has increased significantly since the initial recognition of the exposure.
A44	We would recommend that the committee consider rewording or providing an example of what is intended.	It is not clear what is meant by "relevant forward-looking implications of the modifications for the credit quality of the exposure (taking into consideration the credit quality of the obligor).
A45	The duplication and inconsistency with A42 can be reduced by deleting the sentence or at least restate it along the lines of A42 The section would flow better if this paragraph were merged with A42 and A43.	It is misstating IFRS 5.5.12 to suggest that banks need to obtain evidence that the credit risk has not increased and it is difficult if not impossible to prove such a negative. Rather, as already noted in A42, the assessment of credit risk is made by reference to the risk of default occurring at origination (based on the original terms) with that at the reporting date (based on the modified contractual terms). The paragraph notes that a borrower would have to demonstrate consistently good payment behaviour for a loan to move from LEL to 12m ECL. It may be beneficial to also include examples relating to wholesale lending where other factors may be indicative of a transfer from LEL to 12m ECL, such as recapitalisation, changes in the seniority of debt.
A46	The paragraph would benefit from references to proportionality (as modified by the comments discussed in paragraph 11 above) and materiality (as suggested in the comments on paragraph 15 above).	Please see comments for para A40 regarding our disagreement that the use of practical expedients is inappropriate. While we agree that cost should not be used as an excuse for obtaining reasonable and supportable

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		information, equally there are situations where the inability to obtain sufficient information to develop complex models is not available at any cost. As noted above, the guidance does not override materiality judgements made by management and it is not consistent with a high quality implementation to introduce unnecessary complexity and operational risk.
A48	We would recommend that the committee consider deleting “exceptions from the core requirements of the Standard” and “and disclosed”.	We question the statement that the practical expedients are “exceptions from the core requirements of the standard”. They have been included in the standard since they represent implementation methods which are considered to appropriately apply the requirements. Therefore they are consistent with applying the standard and not an exception from the requirements. Given this, we would consider that their use should not be disclosed as it cannot be material.
A49	1. We would recommend that the committee consider adding “The Committee does not expect cost and operational risk to be introduced where this does not contribute to a high-quality implementation” to the end of the paragraph. 2. The Committee might consider amending the final sentence to “This will potentially require costly upfront investments in new systems and processes and acquisition or calculation of historical loss information, but the Committee….”	1. The paragraph should also acknowledge that unnecessary cost and complexity, which will increase operational risk at no benefit to the quality of implementation, is not intended by the Committee. *2.* This paragraph appears to draw a distinction between “reasonable and supportable” information and information that can be obtained without undue cost or effort in the third and fourth sentence respectively. This is inconsistent with IFRS 9.B5.5.49 which defines “reasonable and supportable” information as information which is “reasonably available at the reporting date without undue cost or effort”.
A50	We would recommend that the committee consider adding “for their lending business” after “banks”.	We are uncertain as to whether the intention for this paragraph is not to apply to debt securities. The proposed guidance considers the low credit simplification as a practical expedient. We disagree. The IASB decided to allow rather than require this simplification (IFRS 9:BC5.183) “to reduce the operational costs and make the model more cost effective” noting that such an approach should be available so it more aligned with a bank’s internal credit risk systems (IFRS 9:BC5.180). Given the IASB’s stated reason for introducing the simplification we do consider the use of such an approach should be rare and is associated with a low-quality implementation.
A51	We suggest A50 and A51 are combined as follows: A51. 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..	It should be clarified that it is only the use of the “low credit risk exemption” as an operational simplification to avoid tracking that is of concern to the Committee and not the consideration of whether a loan is low credit risk at initial recognition in determining whether an increase in credit risk is significant. It also appears that paragraph A52 requires 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 is indicating that they consider that the operational simplification of avoiding tracking is <u>never</u> appropriate. If this is the intention, paragraph A51 and A52 should be clarified and A53 – A58 deleted: If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A52	A51. The Committee regards the low-credit-risk exemption as merely an operational simplification to avoid considering whether there	.

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	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..	
A53	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A54	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A55	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A56	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A57	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A58	Delete as would not apply if tracking is always required.	If tracking is always required, then the additional guidance and disclosure requirements would never apply and are superfluous.
A59	Consider redrafting the last sentence to only refer to the use of the more than 30 days past due rebuttable presumption rather than to significant reliance on past due information.	Past due information is included in credit scoring and is included in Basel credit components such as PD. As such the last sentence could imply that even credit scores and PDs cannot be considered in determining transfer because they include some past due information and often this is a significant component. This would go beyond just discouraging the use of 30 days past due as the sole transfer criteria. As noted above, we do not agree that the use of exemptions which are included in the standard should be a reflection on the quality of implementation.