European Banking Federation

Chief Executive

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Mr Steven MAIJOOR
Chair
European Securities and Markets Authority (ESMA)
Email: steven.maijoor@esma.europa.eu

Subject: IFRS 9 pre-transition disclosures

Dear Mr Maijoor,

We are writing to you in reference to ESMA plans to issue a statement on disclosures before IFRS 9 'Financial Instruments' is implemented to encourage listed companies to provide timely and relevant information on the expected impact of the IFRS 9[1] in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Such a statement could be seen as akin to the document issued by CESR in anticipation of IFRS conversion in 2005.

Some of the larger European banks have provided both qualitative and quantitative information to the EBA in April 2016 on the impact of applying IFRS 9 to the 2015 balance sheet on a best effort basis. The objective of this exercise was to assist EBA in understanding banks' state of preparedness as well as the potential impact. However, it is our understanding that EBA has acknowledged that publication of the results of the IA, even at aggregated level, would not be appropriate given the concerns about the reliability of the information reflected in the extensive caveats necessary to describe its basis of preparation. In some cases, assumption proxies and extrapolations were employed in the calculations, which will not be employed in the full implementation such as:

1. Incorporation of forward looking scenarios

   The ability to include forward looking information is not yet fully developed in many banks' internal models. As a consequence calculations may assume that current conditions persist in the future or many only incorporate forward looking information that is inherently reflected in the credit ratings.

2. Stage allocation

   For several banks the stage allocation may be based on absolute triggers as a proxy rather than reflect the relative credit deterioration that will be incorporated as banks progress with their implementation projects.

3. Building of internal models

   For some banks, Lifetime Expected Loss models are currently in their design phase and the lifetime calculations may not reflect all of the IFRS 9 requirements that will eventually be incorporated into the models.

[1] As stated in the ESMA 2015 annual report on Enforcement and Regulatory Activities

4. Data availability

   The relevant data necessary for the allocation of assets into stages may not, or not yet be available in all banks, in particular for loans originated before Basel II.

5. Classification and measurement

   Some banks may not have completed all the testing necessary to finalise classification and measurement decisions. In addition, final business model decisions may only be taken at transition, particularly where they depend on business decisions and market conditions at that date.

6. Liquidity buffers

   Several banks may not have finalised decisions on whether "liquidity buffers" will be classified as FVOCI in total or allocated to different business models.

7. Transposition of the Basel Guidelines on Credit Risk and Accounting for Expected Losses into the EU legislation

   The Basel Guidance is aimed at internationally active banks. While the industry expects the Guidance to be transposed into the EU legislation as closely as possible to the original text of the Basel Committee, uncertainty exists on the impact on banks that are not in the scope of the Guidance and how the principle of proportionality will be applied.

We are well aware of the market interest in IFRS 9 information as well as the importance to financial stability of ensuring that the market is not surprised by the consequences of the new accounting standard. Therefore we support the requirements in IAS 8 to state such if the impact of a new standard is not known or reasonably estimable. The Enhanced Disclosure Task Force (EDTF) set up by the Financial Stability Board, extensively discussed the timing of providing disclosures on IFRS 9 in the transition period.

It concluded that, given that the changes introduced are likely to require extensive data, systems and process changes within banks, a gradual and phased approach during the transition period would be most useful to users, to give them clearer insights into the likely impacts of the new standards as implementations progress and to allow users to make increasingly useful comparisons between banks. The initial focus should be on qualitative disclosures. The quantitative disclosures should be added as soon as they can be practicably determined and are reliable but, at the latest, in 2017 annual reports for IFRS reporters. A gradual and phased approach means that: (a) the initial timing of information being provided, whether qualitative or quantitative, should be weighed against reliability; and (b) the nature and extent of disclosures will develop over time.

The timing of providing public disclosures to reflect the EDTF recommendations is likely to vary between banks due to differences in their individual timetables for developing and implementing ECL provisioning.

In addition, the prudential treatment of IFRS 9 impacts is still awaiting clarification. The Basel Committee is expected to publish a consultation paper on the prudential treatment of the impacts of IFRS 9 at the end of June, which is only the first stage of obtaining an understanding of the regulatory impacts. In the absence of clarity over the regulatory impacts, banks will be unable to provide information on the potential impact to their businesses, which is a key focus of users.

While the objective of ESMA providing a statement on the pre-transition disclosures is unclear, we are concerned that any statement should not be issued without prior public consultation. We would also be concerned if such a statement contradicted the IAS 8 requirements since impacts that cannot be reasonably estimable should not be disclosed and the determination of when such estimates are reliable is a matter for individual banks.

We therefore believe that any pre-transition disclosures with regard to impairment should not go beyond those required by the EDTF in its October 2015 report "Impact of expected credit loss approaches on bank risk disclosures" that has been extensively discussed and consulted upon.

Yours sincerely,

Wim MIJS