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Banks

EDTF guidance on new credit risk disclosures

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Principles on bank disclosures updated to reflect accounting for expected credit losses

Highlights

- Revalidation of existing principles – Aim is to help users of financial statements to better understand the risks taken by banks
- A balance of temporary and permanent considerations
- A gradual and phased approach to disclosure in the run up to 2018
- Find out more

In this latest development in the drive to improve investor confidence in financial reports by banks, the Enhanced Disclosure Taskforce (EDTF) has revisited and updated the principles outlined in its 2012 report.

With the advent of accounting standards featuring expected credit loss models in both IFRS – i.e. IFRS 9 *Financial Instruments* – and US GAAP, this revision specifically considers the additional disclosure needs that arise when applying expected credit loss techniques given the greater degree of management judgment required and inherently complex model based calculations.

Revalidation of the existing principles

The EDTF aims to help users of financial statements to better understand the risks taken by banks, through supporting banks in ensuring that such risks are reflected in their financial statements and risk disclosures. The EDTF also aims to achieve greater consistency and comparability of disclosures across internationally active banks.

The new report analyses the applicability of the original report's seven principles and 32 recommendations. All of the principles were reconfirmed with an emphasis on Principles 1, 3 and 6 as follows.

- **Disclosures should be clear, balanced and understandable.** There should be an appropriate balance between qualitative and quantitative disclosures and they should provide straightforward explanations of more complex issues.
- **Disclosures should provide relevant information.** In particular, banks should assess which factors and risks create variability in their measurement of expected credit losses and explain why those variables are the most significant, providing associated disclosures for only those factors and risks.

"Improved risk disclosure is a must-have for banks seeking to build trust and transparency; properly reflecting the risks that have been taken is key."

– **Disclosures should be comparable among banks.** Given that IFRS and US GAAP will have different models and that expected credit losses are likely to be calculated in idiosyncratic ways by each institution, high quality disclosures are vital for comparability.

A balance of temporary and permanent considerations

The report addresses:

– disclosures that are recommended in the run-up to implementation or at transition (temporary considerations); and

– more permanent disclosures that should be made both before and/or after 1 January 2018.

All of the suggested disclosures are linked to one of the original 32 recommendations of the 2012 report.

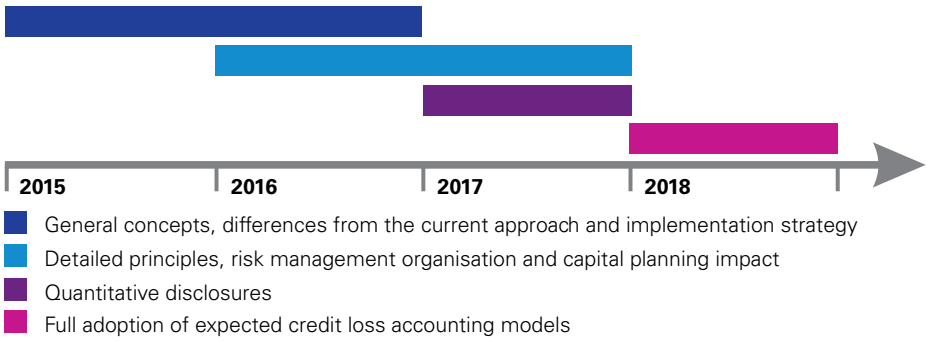
Temporary considerations	Permanent disclosures
These are focused on information that can be provided in anticipation of the first-time adoption date.	These are focused on policy and model considerations that will be informative to investors in the annual report.
For example: Disclosures on timelines, comparisons to current provisioning methodologies and potential impacts – such as on key ratios, capital and stress testing.	*For example:* Disclosures regarding key concepts and definitions, how risk management structures are affected, key policy interpretations and model information. In addition, there is a recommendation that banks consider how credit quality disclosures can be made that are similar to regulatory disclosures.

A gradual and phased approach to disclosure

The EDTF recommends an approach that weighs the timing of quantitative and qualitative information against the reliability of that information such that the nature and extent of disclosures will develop gradually in the run up to a 2018 implementation date.

An indicative timeline for a typical bank with a December year end has been provided, consistent with the timing of annual reports – i.e. 2015 annual report issued early 2016.

Recommended disclosures for banks – indicative timeline



Find out more

Visit our IFRS for Banks hot topics page for the latest on IFRS developments that directly impact banks, and the potential accounting implications of regulatory requirements.

And visit our IFRS – Financial instruments hot topics page to find out more about the requirements of the new financial instruments standard, IFRS 9.