23 September 2022

Greater granularity and more transparency -
Further enhancement of expected credit loss disclosure

The Taskforce on Disclosures about Expected Credit Losses ('the DECL Taskforce') has today published updated guidance on a complete set of high quality IFRS 9 Expected Credit Loss accounting (ECL) disclosures. The guidance is aimed primarily at the biggest UK-headquartered banks and building societies, but is also likely to be relevant to a much wider group of preparers.

Since the beginning of 2018, banks and building societies preparing IFRS accounts have been required to provide for credit losses using ECL. The complexity and judgement involved in estimating ECL means that high quality, comparable disclosures are essential in enabling users of financial reports to understand, analyse and compare the ECL numbers.

In order to help guide ECL disclosure practice, the FCA, FRC and the PRA set up a Taskforce of preparers and users and asked it to work together – under the leadership of Simon Samuels of Veritum Partners and David Joyce of Lloyds Banking Group – to determine and describe what a complete set of high quality ECL disclosures might look like. That work formed the basis of the Taskforce's first and second reports, issued in November 2018 and December 2019, respectively. This third report from the Taskforce includes the results of assessments made by Taskforce members of the progress made by preparers in the adoption of certain of the disclosure recommendations, which demonstrated very high levels of adoption. It also includes good practice examples drawn from banks' and building societies' financial statements, and other amendments to address gaps, deficiencies or to otherwise improve existing material. Almost all the original recommendations and guidance remain, but this third report introduces updates to encourage consistency and comparability, and further guidance on the "judgemental adjustments" (such as post-model adjustments and overlays) that banks and building societies make to modelled numbers in estimating ECL.

The Taskforce's report incorporates and supersedes the disclosure recommendations, guidance and illustrative examples from its first and second reports.

The Taskforce's report builds on the requirements in IFRS 7 *Financial Instruments: Disclosures* and the recommendations in the December 2015 report of the Enhanced

Disclosure Task Force. It focuses mainly on disclosures that help users to understand the types and extent of credit risk exposure a bank has and how that risk has evolved; the forward-looking information about macro-economic conditions used in estimating ECL; and the sensitivity of ECL provisions to different macro-economic conditions.

Simon Samuels said:

> "ECL is important but complex, and it is not easy to provide disclosures that give users what they need. This third report will further help preparers focus their disclosures on the things that matter, and to do so at an appropriate level of granularity. Comparability from bank-to-bank is also essential but not easily attained and the changes we have made in this third report will further help preparers to find a way towards greater comparability in the way disclosures are presented."

David Joyce said:

> "ECL is an important number in banks' and building societies' financial statements. Preparers want users to be able to understand their ECL numbers, and the Taskforce's report enables them to do that in a way that will help users to compare between banks. The enhancements we've made are not major changes – we think our previous report was largely in the right place – but they are still stretching and may take a year or two to adopt. Our report deserves to be read widely and I hope it will play a part in improving ECL disclosure practice generally."

Notes for editors:

1 The Taskforce is sponsored by the FCA, the FRC and the PRA. Those regulators also appointed the members of the Taskforce and determined its terms of reference.

2 The Taskforce members involved in preparing this third report were:

David Joyce (Lloyds Banking Group) – Co-Chair	Jason Napier (UBS)
Simon Samuels (Veritum Partners) – Co-Chair	Ben Perry (Nationwide Building Society)
Justin Bisseker (Schroders)	Jonathan Pierce (Numis)
Manus Costello (Autonomous)	Aman Rakkar (Barclays Bank)
Conrad Dixon (HSBC)	Alastair Ryan (Bank of America)
Gary Greenwood (Shore Capital)	Osman Sattar (S&P Global Ratings)
Andrew Hursthouse (Lloyds Banking Group)	Christian Scarafia (Fitch Ratings)
Chris Innes-Wilson (Standard Chartered Bank)	Guy Stebbings (BNP Paribas Exane)
Richard Lawrence (NatWest)	Brendan van der Hoek (Santander UK)
Mark Maconachie (Barclays Bank)	

3 The Taskforce secretariat is provided by the accountancy firms Deloitte, EY, KPMG and PwC.

4 All press enquiries should be directed to:

- Simon Samuels, Veritum Partners and Taskforce co-chair, at simon.samuels@veritumpartners.com.
- David Joyce, Lloyds Banking Group and Taskforce co-chair, at David.Joyce@finance.lloydsbanking.com.

5 A copy of the Taskforce's third report can be found here. (The third report incorporates the extant material from the second report, which has, as a result in effect been withdrawn.) A copy of the letter the co-chairs sent to the Taskforce's sponsors, announcing the report's finalisation, can be found here.