The Taskforce on
Disclosures about Expected Credit Losses

Nikhil Rathi
Chief Executive
Financial Conduct Authority
12 Endeavour Square
London, E20 1JN

Sir Jon Thompson
Chief Executive
Financial Reporting Council
8th Floor, 125 London Wall
London, EC2Y 5AS

Sam Woods
Chief Executive
Prudential Regulation Authority, Bank of England
20 Moorgate
London, EC2R 6DA

7 September 2022

Dear Nikhil, Sir Jon and Sam

We write on behalf of the Taskforce on Disclosures about Expected Credit Losses ('DECL Taskforce') to provide you with a copy of the Taskforce's third report, *Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures.* We will be publishing the report this week. 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.

As you are aware, in 2018, the accounting basis for credit loss provisioning under IFRS was changed from an incurred loss model to an expected credit loss (‘ECL’) approach. Recognising the challenge of developing a comprehensive set of appropriately detailed and targeted ECL disclosures, and providing disclosures that achieve the desired degree of comparability between firms, your organisations set up the DECL Taskforce – a partnership between the preparer community and the investor and analyst community – to develop a shared vision of what a complete set of high quality ECL disclosures might look like.

You asked the Taskforce initially to work on developing recommendations outlining the information content of a "comprehensive set of appropriately detailed and targeted disclosures", then on developing recommendations on how that information can be presented in a way that enhances comparability between banks and building societies. Our first report, which was published in November 2018, sought to meet the first objective and our second report was designed to meet the second.[1]

[1] The third report contains the recommendations and guidance from the second report and therefore supersedes it.

The Taskforce's second report, published in December 2019, added recommendations and guidance on the detailed scope and focus of the information to be provided, how the information should be linked to other information disclosed and, in some cases, the level of detail or type of analysis to be provided. Illustrative examples, suggesting how the recommended disclosures could be presented in a broadly harmonised way from bank-to-bank, are provided in support of the main recommendations. We recognised when we wrote to you ahead of publishing the second report that disclosure practice would continue to evolve, as preparers and users work with ECL disclosures and as facts and circumstances change. We decided that, after a further two years of ECL disclosure experience, and in particular disclosure through a period less economically benign than when the second report was published, that the time was right for a third report.

This third report does not include a significant number of new recommendations, nor does it remove very much of the existing material. The Taskforce concluded that the material in the second report is still broadly appropriate, but nevertheless recognised that enhancements could be made. The most noteworthy updates to the third report include:

- A comparison of preparers' and users' assessments of adoption of selected Taskforce recommendations. This assessment showed greater than 90% "full adoption" of those recommendations, which in our view demonstrates the value of the work carried out by the Taskforce.
- Good practice examples, drawn from banks' and building societies' financial statements.
- Updated recommendations based on the assessments and examples and addressing gaps, deficiencies or to otherwise improve existing material. Two notable changes reflect preparers', and investors' and analysts' experience since publication of the second report – the report includes material intended to improve the granularity and comparability of ECL disclosures and the Taskforce has enhanced the recommendations and supporting material about "judgemental adjustments" (such as post-model adjustments and overlays) made to modelled ECL.

In our view this third report provides a comprehensive set of high-quality ECL disclosures. We look forward to seeing banks and building societies adopt the changes, as soon as possible; and ideally, and where practicable, for accounting periods ending on or after 31 December 2023. The Taskforce wishes to give time to banks and building societies, and investors and analysts, to fully implement and use the recommended disclosures. We are sure, however, that preparers, investors and analysts will be ready, if needed, to carry out further work on ECL disclosures in the future.

We would like to finish by thanking our fellow Taskforce members for the time and effort they have spent on developing this report. We also thank the members of the secretariat for their commitment, contributions and simply for making everything happen. Finally, we thank your organisations for recognising several years ago the role that you could play in this very important subject and for taking the steps necessary to fulfil that role - and of course for your support.

Yours sincerely

Simon Samuels
Taskforce Co-Chair
& Veritum Partners

David Joyce
Taskforce Co-Chair
& Lloyds Banking Group

Enclosure: 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures (now including updates to the second report): A third report prepared by the Taskforce on Disclosures about Expected Credit Losses'.