Consultation on IASB Request for Information: Post-Implementation Review of IFRS 9 - Impairment

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1.	<u>**Impairment**</u> **Do the impairment requirements in IFRS 9 result in:** **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?**	(a) In general, the impairment requirement in IFRS 9 does result in more timely recognition of credit losses compared to IAS 39 and addresses the complexity caused by having multiple impairment models for financial instruments. Under IAS 39, the incurred loss model was used to recognize credit losses, which required a loss event to occur before a provision could be made. Credit losses were recognized only there is objective evidence of impairment such as default, which is too late. On the other hand, IFRS 9 introduced a more forward-looking expected credit loss (ECL) model, which requires the recognition of credit losses based on expected future losses rather than just incurred losses, leading to earlier recognition of credit losses well before a loss event such as default has occurred. Besides, IFRS 9 addresses the complexity caused by having multiple impairment models for financial instruments by introducing a single impairment model for all financial instruments. This simplifies the accounting treatment and reduces the potential for inconsistencies and confusion that can arise from having multiple models under IAS39. However, majority of provisions still arise on default, with ECL intensity (coverage) for 12 month (stage 1) and lifetime (stage 2) populations being significantly low. Also, there is additional complexity / judgements introduced around determining SICR, measuring the risk of default and changes in that risk, use of forward-looking information and determining probability weightings. Last but not least, there are significant ongoing costs from maintaining complex modelled based approaches to determining ECL.
	(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?	(b) Yes, the impairment requirement in IFRS 9 also results in an entity providing useful information to users of financial statements about the effect of credit risk. Under IFRS 9, the expected credit loss (ECL) model requires entities to recognize expected credit losses on financial instruments. The ECL model is forward-looking

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	Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.	and considers a range of information, including historical experience, current conditions, and reasonable and supportable forecasts, to estimate credit losses over the expected life of the financial instrument. By recognizing expected credit losses, entities can provide useful information to users of financial statements about credit risk such as the distribution and movement of impairment allowance by stage. Furthermore, the ECL model provides greater transparency and insight into an entity's credit risk management practices such as the expected credit loss methodology, the criteria of significant credit deterioration considered, the economic scenario assumptions and sensitivity analysis, etc. Currently, there is not much support of having defined bright lines, for example, quantitative thresholds for SICR, the number of scenarios and spread of probability weightings. An enhanced guidance would help to support more consistency.
2.	<u>**The general approach to recognising expected credit losses**</u> **(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?** Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach. **(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?**	(a) No. Recognizing expected credit losses at an early stage can help entity to better anticipate and manage credit risk. By recognizing 12-month expected credit losses throughout the life of an instrument, entities can provide a forward-looking view of the credit risk associated with the instrument and reflects the increased uncertainty in the current economic environment, which can assist investor and other users of financial statements in understanding the expected credit risk of the portfolio. Lifetime expected credit losses are required to be recognized when there has been a significant increase in credit risk since initial recognition of the instrument. This requirement ensures that entities recognize all expected credit losses that are reasonably and supportably expected to occur over the lifetime of the instrument, giving a more comprehensive picture of the expected credit losses that could arise from increased credit risk. (b) The calculation of ECL for very low risk, high quality counterparties and for counterparties under common control may provide limited useful information to users as credit losses are less likely to occur.

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	If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.	Although not mandated by IFRS9, the use of complex, sophisticated modelling approaches to determine ECL led to significant implementation costs and significant ongoing maintenance and development costs
3.	**<u>Determining significant increases in credit risk</u>** **(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?** Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk. **(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?** Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity	(a) No. The principle-based approach requires entities to consider all relevant information, including both quantitative and qualitative factors, as well as expert judgement, in determining whether there has been a significant increase in credit risk since initial recognition of the financial instrument. By allowing entities to consider all relevant and reliable information and exercise judgement in a consistent and transparent manner in assessing credit risk, the approach can ensure that credit losses are recognized in a timely and accurate manner. (b) Yes. We are of the view that such requirements could provide an adequate basis for entities to apply the assessment consistently. The requirements provide some presumptions in paragraph 5.5.10 and 5.5.11 to identify significant increases in credit risk (SICR) since initial recognition.*"* In paragraph B5.5.17, the list of relevant information in assessing increase in credit risk is also provided. The entities shall follow the requirements and establish their own SICR criteria according to their risk characteristics and credit risk management practices.

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	affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity. In responding to (a) and (b), please include information about applying judgement in determining significant increases in credit risk (see Spotlight 3).	Certain degree of diversity may arise due to varying approaches being used and differences in their risk characteristics and credit risk management practices, but the overall direction shall align the principle of the requirements. Such diversity would not affect the usefulness to users of financial statements as the bank has disclosed the SICR framework with the details of concerned factors in both quantitative and qualitative in the notes to financial statements, so that the users of financial statement can understand and evaluate how the entity has determined whether the credit risk of a financial instrument has increased significantly since initial recognition. We appreciate if more examples and guidance of what is considered to be significant can be provided to reduce diversity in application. The examples 1 and 2 in IFRS9 Illustrative Examples are more qualitative examples of significant. IASB may supplement an example of the quantitative approaches many banks use as their primary indicator of SICR.
4.	<u>**Measuring expected credit losses**</u> **(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?** Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.	(a) No. The expected credit losses model requires entities to consider all reasonable and supportable information, including historical experience, current conditions and forward-looking information in estimating the expected credit losses over the life of instrument. In case of extreme conditions where some factors may not be captured in the model, post-model adjustment and management overlays can use to supplement the estimate and provide additional information to users of financial statement. Extending the expected credit loss model to off-balance-sheet exposures provide a more comprehensive view of an entity's credit risk and the potential impact of future cash flows, enhancing the usefulness of the financial statement for users. However, there is diversity in practice due to differences in credit risk management, views on forward looking scenarios and probability weightings, etc. It is advisable that principles or guidelines related the utilization of such post-model adjustment and management overlays along with appropriate disclosure requirement should be established to prevent the significant deviation of the practice across entities.

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	(b) Can the measurement requirements be applied consistently? Why or why not? Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity. In responding to (a) and (b), please include information about forward-looking scenarios (see Spotlight 4.1), post-model adjustments or management overlays (see Spotlight 4.2) and off-balance-sheet exposures (see Spotlight 4.3), as relevant.	(b) To a certain extent, such requirements could provide an adequate basis for entities to measure expected credit losses consistently. For forward-looking scenarios, the requirement requires the entities to measure expected credit losses in a way to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; and reasonable and supportable information that is available without undue cost or effort . Applying multiple forward-looking scenarios allows the entity to capture the non-linearity risk between the economic variables and credit losses which provide a more adequate basis for measuring expected credit loss. For post-model adjustment, the post model adjustment (PMA) would be necessary when the existing models do not accurately reflect the risks and uncertainty which are not captured by the models, and thus use of PMA would enhance the completeness of model. However, we agree that PMA involves subject management assessment and the size and nature of adjustment varies across entities. In order to provide more meaningful information to users, the IASB could suggest in what circumstances the PMA shall be used, and the percentage or amount of provision adjusted relative to the pre-adjusted result could be made, and provide more guidance on the disclosure requirement in the areas of the rationales, limitations, assumptions, data inputs and techniques. For off balance sheet exposure, when interpreting the requirement of the 'exception' over the period over which expected credit losses are measured for loan commitments, the entities can refer to the paragraph B5.5.39 which provides general characteristics of financial instruments that fall in the scope of the exception. The bank exercises the exception to the revolving credit facilities for which the ECL is measured over the period that the bank remains exposed to credit risk that is not mitigated by management actions in respect of credit risk and this has been disclosed in the notes to financial statements to ensure the information provided in the financial statement be comparable. However, we would like to seek further guidance in determining ranges of outcomes, the probabilities to assign to those ranges and the sourcing, application of reasonable and supportable forward-looking information in IFRS9.35F, in particular IFRS9.35F(a) and (b) around SICR and default and IFRS9.35G, covering the basis

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		of how ECL is determined, how macroeconomic forecasts are incorporated and the impact of probability weighting alternate scenarios, application of expert credit judgement and the use of significant assumptions and judgements when determining ECL (which would include the use of judgmental post model adjustments (PMAs) / management overlays.
5.	**<u>Simplified approach for trade receivables, contract assets and lease receivables</u>**	We have no comment.
6.	**<u>Purchased or originated credit-impaired financial assets</u>** **Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?** Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions. If there are specific application questions about these requirements, please describe the fact pattern and: **(a)** explain how the IFRS 9 requirements are applied; **(b)** explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); **(c)** explain how pervasive the fact pattern is; and **(d)** support your feedback with evidence.	(a) Yes. As the criteria for identifying purchased and originated credit-impaired (POCI) asset are clearly defined, the requirement for POCI asset can be applied consistently. For those financial assets, lifetime ECL has been recognized to reflect the higher credit risk inherited at the time of purchase or origination. (b) – (d) We have no comment.
7.	**<u>Application of the impairment requirements in IFRS 9 with other requirements</u>** **Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?** If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting	We would like to seek more guidance on the linkage between modification accounting and impairment. As IFRS9 is silent on the booking destination of the modification gain/loss (i.e. how the modification gain/loss should be booked), it may not be clear when a modification should be reported as part of impairment.

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	information to users of financial statements. Please describe the fact pattern and: **(a)** indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate; **(b)** explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); **(c)** explain how pervasive the fact pattern is; and **(d)** support your feedback with evidence. In responding to this question, please include information about matters described in this section of the document.	
8.	**<u>Transition</u>**	We have no comment.
9.	**<u>Credit risk disclosures</u>** **(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?** Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving: (i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and (ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks. If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.	(a) No, there is no fundamental questions / fatal flaws about disclosure requirements. And we continue to support that disclosures should reflect how risks are managed by individual firms, which may mean the form and content of disclosures varies between firms. However, to promote consistency, we would appreciate if there is supportive of enhanced guidance, / illustrative examples for certain disclosures, for examples: • IFRS9.35F and IFRS9.35G as stated in Seq.4; • Flow tables in IFRS7.35H and 35I; and • IAS1 sensitivity disclosures (to highlight the range of measurement uncertainty)

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	(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected? If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified. If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements. Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.	(b) We have no comment.
10.	**<u>Other Matters</u>**	We have no comment.