21/09/2023

International Accounting Standards Board
commentletters@ifrs.com

Re: Request for Information: Post-implementation Review IFRS 9 Financial Instruments Impairment

Dear Mr. Barckow,

The Swedish Bankers' Association is responding to your invitation to comment on your *Request for Information – Post-implementation Review IFRS 9 Financial Instruments Impairment (IASB/RFI/2023/1)*.

In general, the impairment rules works as intended and we are supportive of that the present principle based model remains. We are also supportive of that the disclosure requirements continues to be provide head-room for variations in disclosures given depending on what is relevant for each single entity. We are concerned that more detailed disclosure requirements and prescriptive model requirements may hinder a continued development of new enhanced modelling techniques.

However, we have observed that the areas in which we had concerns when commenting on the draft standard still concerns us.

When we commented on the draft standard we questioned that all material changes in credit risk should result in life time expected losses. Further we were in favour of having an exception for bucket 1 and bucket 2 provisioning for exposures to other entities within the same consolidated entity in their separate financial statements. Finally we also questioned the relevance for ECL-provisioning for single large high quality exposures.

Does the standard work as intended?

In your request you ask for feedback with regards to if impairments are recognised more timely than before and if users receive more useful information.

We believe the outcome differ depending on the models that entities had implemented prior to IFRS 9, some entities already had models that produced similar or higher provisions than the new models while others had more significant increases in their provisions from the implementation of IFRS 9.

With regards to enhanced usefulness of the disclosures, the answer is the same; it is dependent how what disclosures that were given already before the implementation of IFRS 9.

Fundamental flaws in the model?

We do not consider that there are fundamental flaws in the model, but we believe that our concerns that we raised when commenting on the ED have been confirmed.

One area of concern was the recognition of life time expected losses for significant changes in credit risk. For high quality exposures there is a variation in profit margin that is more dependent on the total client relationship than the actual credit risk. Further, other contracts may have a price mechanism in which the margin change when the external rating/or the risk in the credit portfolio changes. In both these cases the relevance of recognising a life time expected loss when there is a significant increase in credit risk could be questioned. For these kind of exposures some contracts may be recognised in bucket 1 and others in bucket 2, for the same counterpart, even though the profit margin is the same, depending on if the exposure was initiated before or after the change in credit risk.

We also had concerns with the requirement to model ECL provisioning for single large high-quality exposures. These are unique exposures that have a significant impact on the lender if they enter into default, but the probability is extremely low that this will happen. For those exposures bucket 1 and bucket 2 models do not work in the same way as for homogeneous portfolios in which no single exposure is material. Therefore the statement that the "*collective assessment would ensure that an entity could meet the objective even if evidence of such significant increases in credit risk at the individual instrument level was not yet available*" do not hold.

Finally we consider that the model is unbalanced in the sense that when an exposure is moved to bucket 2, the current pv of the expected losses is recognised day one, while the credit margin that compensates for the expected credit losses are recognised at cost during the life of the exposure. This result in a day-one loss that is not representative of the underlying profitability of the contract, especially not for contracts with a long duration.

Applying judgement in determining significant increases in credit risk and post-model adjustments

We agree with those stakeholders that have told the IASB that principle-based requirements in the area of determining significant increases in credit risk remain fundamental. We also share the IASBs view that *'applied consistently'* does not mean *'applied identically'*. Providing detailed requirements in this area would hinder a sound development of enhanced models. Both the covid-19 crisis as well as the ongoing war between Russia and

Ukraine have proven that the present models fail to capture new types of risks for which historical data is lacking. New modelling techniques therefore needs to be developed and too prescriptive requirements may hinder that. Meanwhile, we believe that entities may provide useful disclosures that explain the model adjustments and overlays that have been used based on the present requirements in IFRS 7.

Forward looking scenarios

We believe that the present requirements provide reasonable and principle based guidance with regards to how many different scenarios an entity is expected to use for different kinds of portfolios and therefore do not support the view of those stakeholders that has told the IASB that this is unclear. For homogeneous portfolios with linear risk fewer scenarios are needed than for heterogeneous portfolios with significant non-linear risks. Depending on materiality an entity needs to find the proper balance between costs and benefits and we believe the present guidance in IFRS 9 provide a good basis for understanding that.

ECL-provisioning in the separate financial statements

One area of concern for us is the lack of exception for ECL-provisioning for exposures against another entity in a group. We believe that IFRS 9 should provide an exception for bucket 1 and bucket 2 provisioning. Firstly, the IASB assumption that "*collective assessment would ensure that an entity could meet the objective even if evidence of such significant increases in credit risk at the individual instrument level was not yet available*" do not hold for group internal transactions. Secondly, the IASB has in other areas of financial reporting (e.g. IFRS 3) concluded that transactions between entities within the same group is not at arm's length wherefore the relevance of recognising a life time expected loss for the change in pv caused by a change in credit risk could be questioned. Finally, to conclude on the credit risk as such when a parent controls the entity that has lent to the parent, or the credit risk for a parent that has guaranteed the same subsidiary is difficult or even arbitrary.

Yours sincerely,

SWEDISH BANKERS' ASSOCIATION

Hans Lindberg Mats Stenhammar