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June 8, 2015

Mr. Rene van Wyk
Chair of Accounting Experts Group
Basel Committee of Banking Supervision
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Comment Letter on Basel Committee on Banking Supervision Consultative Document Guidelines: Guidance on Accounting for Expected Credit Losses

Dear Mr. van Wyk,

The CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Basel Committee on Banking Supervision ("BCBS") Consultative Document – Guidelines: Guidance on Accounting for Expected Credit Losses (the "BCBS Consultative Document" or the "Consultative Document").

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

OVERVIEW

Investors fulfill a market discipline role whilst allocating risk capital to financial institutions. Their involvement in monitoring the quality and consistent implementation of the financial assets impairments is critical. Accordingly, we welcome the opportunity to respond to the BCBS Consultative Document on expected credit loss for impairment of financial assets – as required

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1 With offices in Charlottesville, New York, London, Brussels, Hong Kong, Mumbai, Beijing, CFA Institute is a global, not-for-profit professional association of more than 130,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 150 countries, of whom nearly 123,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 144 member societies in 69 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

by the newly issued International Financial Reporting Standard ("IFRS") No. 9, *Financial Instruments* ("IFRS 9").

The objective of the BCBS Consultative Document as we understand it is to facilitate the high quality implementation of expected credit loss accounting frameworks for lending exposures. The BCBS guidance is a welcome and complementary aspect to the implementation of IFRS 9 including the efforts by the impairment transition resource group.

The quality of accounting for financial asset impairments is important for investors because there is information asymmetry[3] between management of financial institutions and 'outsiders' regarding: underlying terms; conditions of loans granted; and the creditworthy status of borrowers across different lending asset classes. Accordingly, an improvement by reporting entities in the recognition, measurement and disclosure of financial assets impairments is relevant for investors including: a) those who apply reported numbers, with minimal adjustments, as inputs to their valuation or risk measurement models; or b) those who independently estimate the value of impairment of lending exposures. Even though investors' independent estimates are likely to contemporaneously reflect the effect of changing economic conditions on the value of loan portfolios, they remain estimates with significant judgment and investors still need to monitor the reasonableness of their independent estimates against information disclosed by the reporting entity. Said differently, enhancements in reported numbers should have both increased predictive and confirmatory value.

In our comments below, we:

- *Summarize Our Position on the Revised Impairment Models* – Summarize our position on the revisions to the accounting for impairment of financial assets by both the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") (collectively the "Boards").
- *Highlight Investor Challenges* – Highlight the challenges that investors will face in connection with the implementation of expected credit loss models.

In the section which follows we provide our observations on the BCBS Consultative Document.

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[3] A bank's business model entails varied degrees of delegated responsibility to monitor borrowers. The delegated responsibility is granted to a bank's managers by the depositors, equity investors and creditors. As a result, there are inherent and varied degrees of information asymmetry between a bank's managers and its different financiers. Compared to depositors, equity and credit investors are better equipped with information and expertise to monitor the value of a bank's assets but even these investors experience information asymmetry relative to managers. For example, information asymmetry occurs in respect of a significant subset of loans where borrowing still relies on soft factors and credit officer valuation and there is no securitization market – there will be information asymmetry as far as what banks know about borrowers relative to what capital market participants can know.

Accounting for Impairment of Financial Assets: Our Position on Revised Models

In the aftermath of the global financial crisis, it was necessary for the Boards to update their accounting for financial instruments as recommended by the G20. The updates by the Boards which include the IASB's expected credit loss model (IASB ECL) and FASB's current expected credit loss (FASB CECL) accounting are anticipated to result in a more timely recognition of losses, as compared to the incurred loss model, within the profit and loss statement and increase the allowances for loan losses recognized on the balance sheet. The anticipated impact of the IASB ECL model was highlighted in a *2014 Deloitte Global IFRS Banking Survey* which showed that the majority of the 54 large banks surveyed[4] expected balance sheet allowances to increase on initial application of IFRS 9.

As conveyed by our 2014 CFA Institute publication, *Financial Crisis Insights on Bank Performance Reporting-Volume 1*, the widely acknowledged problem of delayed impairment of loan assets (too little, too late) under the existing 'incurred loss' methodology was a contributing factor to the overstatement of balance sheets and the observed low price-to-book (P-to-B) ratios of United States (US) and European Union (EU) banks. Whenever accounting measurements fail to reflect underlying economic reality of held assets, liabilities and comprehensive income – as well as when there are inadequate accompanying disclosures – investors perceive an increase in information risk and greater overall uncertainty regarding the risk profile of these reporting entities occurs. The observed low P-to-B ratios, in part, reflected the uncertainty premium in bank valuations as well as increased investor risk aversion towards banks due to the information risk that crystallized in the eyes of investors during the financial crisis periods.

Through our various comment letter responses, we supported the updates to the financial instruments accounting standards related to the impairment of financial assets. We encouraged the Boards to adopt what we believe to be the most economically relevant impairment model – a fair value measurement approach for all financial instruments – as it provides the most up-to-date economic value for reported assets and liabilities. Our support for a fair value measurement approach was backed by our numerous comment letters to the Boards and highlighted by our most recent comment letter and member survey (*2013 Impairment Comment Letter & Survey*). The survey showed that 46% of our members supported fair value measurement over an impairment model, 41% supported expected loss impairment and 9% supported the incurred loss approach. Investors desire both management's expectations of credit losses and fair value since they have an interest in how management's expectations diverge from fair value. Said differently, they seek to reconcile the expected loss and fair value measurements. Survey respondents indicated a slight preference for the IASB ECL impairment model over the FASB CECL impairment model. Comments revealed that those supporting the FASB CECL model did so because of its seeming emphasis on prudence while others indicated it recognized unrealistic and non-economic impairment charges up-front. The major objection to the IASB ECL model was belief that the 12-month expected loss recognition criteria did not have an economic foundation.

After taking into account the Boards' decision to retain a mixed measurement attribute approach with amortized measurement being the measurement required for most loans, we supported an

[4] It is hard to generalize the survey findings to the entire population of banks.

‘expected loss’ impairment methodology – along with disclosure of fair value – as a replacement for the currently applied ‘incurred loss’ model. Our support for the expected loss model was predicated on its application of forward-looking information inputs whilst estimating future expected cash flows/expected losses and in so doing being more proximate to a fair value measurement approach in comparison to the incurred loss approach. We also recommended the need for disclosures that enable the reconciliation of the expected loss and fair value measurements and for insight into the development of management’s expected loss estimates over time.

Investor Challenges

Complexity: Multiple Accounting Models & Regulatory Impairment Models

Notwithstanding the anticipated improved timing of loan losses, there is increased complexity due to multiple impairment models as we explain below.

Multiple Accounting and Regulatory Models Increase Complexity: Overall financial reporting complexity will, in our view, increase due to the implementation of multiple impairment models and potential opacity regarding the significance of differences across these varied models. On full implementation of IASB, FASB and Basel requirements, differences across impairment models could arise as follows:

- Differences in Accounting Models: IASB ECL vs FASB CECL.
- Differences Resulting from Different Dates of Adoption: There will likely be different impairment models being applied by reporting entities during the transition period especially given that IFRS 9 allows early adoption[5]. As a result, during the transition period, there will be need for investors to be able to compare (within and between entities) incurred loss vs IASB ECL or FASB CECL models.
- Accounting vs. Regulatory Models: (e.g. IASB ECL or FASB CECL vs Basel Expected Credit Loss (“Basel ECL”)).

While we support a difference between accounting and regulatory impairment models given the prudential nature of the regulatory mandate. We are not, however, supportive of differences in accounting models nor differences arising because of differences in date of adoption. Such differences destroy comparability and are a result of accounting not economic complexity. The complexity arising from such differences must be communicated through disclosures to readers of financial statements.

Conflicting Communication Regarding IASB ECL Model vs. FASB CECL Model Effects: There is often conflicting communication regarding the effects of implementation and ongoing use of these varied impairment approaches. In recent outreach, both the IASB and the FASB seem to emphasize that there are limited differences between their final models. In contrast, when both Boards were obtaining stakeholders’ perspectives[6] on their respective models, it seemed to be that there were significant differences as to warrant their departure from a converged model. With the multiple and seemingly conflicting communication on degrees of similarities and/or

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[5] National Bank of Australia has early adopted IFRS 9.

[6] Stakeholder perspectives were most recently sought after the issuance of the 2013 IASB and FASB revised exposure drafts.

differences, there is a risk that investors may assume reported loan impairments are either more or less comparable than they actually are. What will immensely benefit investors and other stakeholders is a higher quality, quantitative in nature and broadly communicated effects analysis than is currently available. The standard setters' communication thus far has been largely conceptual, anecdotal and bereft of communication regarding the quantitative impacts of different impairment models within granular asset classes.

Comparability: Inherent Complexity of Expected Credit Loss Models & Exceptions

The complexity of any expected loss model presents significant challenges towards consistent implementation. While there exists today a challenge in comparing incurred loss models, the even greater forward-looking nature of assumptions in an expected loss model, in our view, increases the complexity in the application and hence comparability under any expected credit loss model relative to the currently applied incurred loss model. As we have expressed in our numerous comment letters to the Boards, we believe that the concerns exposed by opponents of fair value are the same in nature but greater in magnitude in the application of the expected loss model. Under fair value, the Boards have provided greater guidance on the application of the method than in the expected loss model and under fair value there is an obligation to anchor assumptions – to the maximum extent possible – to market inputs. As articulated above, this is one reason why investors are likely to query management on the nature of the differences (i.e. reconcile or triangulate the fair value of financial assets relative to the amortized cost less impairment of these same financial assets).

As we consider the application of the IASB's ECL model, we note the following source of complexity and challenges to comparability as result of the implementation of the model.

- *Multiple Management Judgments* – The adoption of IFRS 9 will require a high degree of management judgments, including the following examples:

  - *Categorizing Credits* – IFRS 9, with its three stage categorization of financial assets across a continuum of credit risk (Performing (Stage 1), Underperforming (Stage 2) and Non-performing (Stage 3)), will require reporting entities to make judgments regarding when significant credit deterioration has occurred and when financial assets have migrated from one category to the other. Preparers will face the challenge of applying judgments on whether a significant deterioration in credit has occurred in a manner that is consistent, comparable and faithfully representational. Investors will face the challenge of understanding how management has made such decisions and whether they are the same between companies.

  - *Variety of Inputs* – More measurement inputs, as noted above, are required under an expected loss model when compared to the incurred loss model, which largely relies on trigger events and indicators such delinquency, prior to assuming significant credit deterioration. In contrast, an expected loss methodology necessitates the integration of credit risk management systems and the accounting recognition methodology which necessitates the application of a myriad of forward-looking macro-economic inputs and estimates such as the probability of default (PD); loss-given-default (LGD) across asset classes; and migration matrices of PD and LGD across time. At the same time, there is a significant risk of opacity around the multiple expected loss inputs as well as on the basis of grouping/segmenting exposures for the purposes of determining the collective impairment. The multiplicity of possible management judgments around inputs and methods required for the expected loss application could result in subjective judgments and thereafter inconsistency and incomparability[7] of the reported impairment amounts. This makes comprehensive disclosures around key judgments imperative to investors.

- *Exceptions and Practical Expedients* – Exceptions and practical expedients always increase the likelihood that some reporting entities may inappropriately depart from core principles and in so doing undermine the comparability across reporting entities. As an example, Paragraph A57 of the Consultative Document points out that if reporting entities apply one of the IFRS allowed practical expedients and thereafter categorize obligors as being low risk exposures due to having an investment grade rating, such obligors can face significant credit deterioration yet not be required to be treated as Stage 2 loans. These practical expedients create accounting complexity for investors.

Notwithstanding the distinctive characteristics of the FASB's CECL and the regulatory expected loss models, we foresee that investors will still experience challenges of a similar nature to those that we have articulated in respect of the IASB ECL. For these reasons many investors will seek to reconcile book values with fair values, as described above, and still others will replace management's expectation of credit losses with their own estimates of expected losses using historical trends and market expectations– with the view that such independent estimates will allow greater comparability of reporting entities as well as reflect investors understanding of historical and expected future economic events.

[7] The 2014 European Central Bank (ECB) *Asset Quality Review (AQR) Report* exemplified the already existing subjectivity of categorizing loans as performing versus non-performing.

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OBSERVATIONS ON THE BCBS GUIDANCE

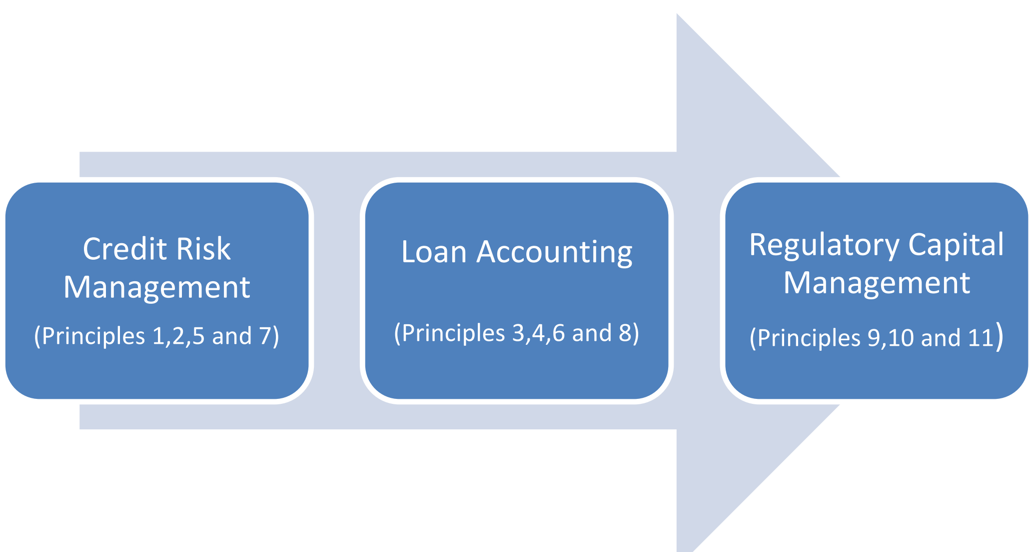
We strongly support the central thrust of the BCBS guidance with its aim, as articulated in Paragraph 3, of ensuring consistent implementation of expected loss models. We also strongly support the push to harmonize supervisory evaluation of the application of the accounting model, after taking into consideration the differences in accounting requirements as well as in the application of similar accounting requirements (i.e. IFRS), across different jurisdictions.

In providing a description of its guidance, the BCBS Consultative Document articulates 11 principles that touch upon several areas including:

- **Credit Risk Management Systems** – The governance, control, process and systems around credit risk management systems (Principles 1, 2, 5 and 7).
- **Exposures** – Relevance of appropriate grouping of exposures within portfolios and management estimates (Principles 3, 4 and 6).
- **Disclosures** – Comparability of information and comprehensive disclosures (Principle 8).
- **Supervisory Roles** – The enforcement responsibilities of supervisors (Principles 9,10 and 11).

Paragraph 1 of the Consultative Document describes the objective of the guidance as being to set out supervisory requirements on sound credit risk practices associated with the implementation and ongoing application of the credit risk management systems towards assessing and measuring the allowances that are reported within the accounting framework. In similar vein, the predecessor 2006 guidance addressed how common data and processes related to loans may be used for assessing credit risk, accounting for loan impairment and determining regulatory capital requirements.

Figure 1: Interdependency of credit risk management, loan accounting and regulatory capital management.



As shown in **Figure 1**, Principles 1 to 11 can be clustered into credit risk management, accounting and capital management core processes. The delineation of these 11 principles reflects the inter-dependence of these principles, processes and appropriately emphasizes the connection between internal credit risk management systems and reporting outcomes related to the credit risk of financial assets as reflected by the accounting expected loss model. Though it is important for all these proposed principles to be robust, the principles that are of particular interest to investors are those that will encourage: a) economically relevant classification of loan exposures; b) relevant measurement of allowances; and c) comparability of reporting outcomes. Specifically, principles 3,4, 6 and 8.

As it relates to our observations on the guidance, we focus on what we feel should be points of emphasis across the 11 principles as well as on matters that are important to investors that have not been addressed in the guidance. Our key messages are as follows:

- Distinguish prudential regulatory vs. accounting standard objectives
- Support measures to ensure comprehensive disclosures
- Address interest income recognition and related disclosures
- Support the need for banks to minimize exceptions and practical expedients
- Consider auditability of standards
- Expand scope of guidance
- National regulator coordination needed to eliminate differences in IFRS reporting jurisdictions

Distinguish Prudential Regulatory vs Accounting Standard Objectives

Capital adequacy is important as both investors and regulators assess the risk and solvency of banks based on this measure. Concurrently, excess leverage of banks during the pre-crisis periods contributed to the overall fragility of the financial system. Consequently, there is wide acknowledgement regarding the need to increase both the quality and quantity of bank capital.

Nevertheless, the necessity for capital replenishment, which often occurs subsequent to significant accounting write-downs during financial crisis periods, has tended to create an inextricable link, in the eyes of many observers, between accounting outcomes and capital management. It has also often led to:

a) flawed claims[8] of unnatural pro-cyclicality of accounting information;
b) the push for accounting methodologies that mirror prudential capital management objectives; and
c) opposition by some stakeholders including prudential regulators towards fair value measurement of financial assets.

What has tended to be sometimes forgotten is that transparency provided by fair value measurement of financial instruments ought to be fully compatible with the long-term financial stability objectives and that sufficient transparency of reporting entities is a pre-requisite to equip investors with the ability to exercise their market discipline function whilst allocating capital.

That said, we also acknowledge that as expressed in Paragraph 15, the BCBS guidance does not intend to contradict the applicable accounting standards established by the IASB, FASB or other standard setters. Rather, the paper presents the BCBS view regarding the robust application of those standards. Although we fully appreciate that prudential supervisory bodies have a potentially complementary role in ensuring the consistent implementation of accounting standards, we feel it is important to reiterate that the principal lever of mitigating bank insolvency risks is by ensuring that they are adequately capitalized. Prudential regulatory objectives should neither be pursued by curtailing the accounting information needs of investors nor by inappropriately aligning accounting and prudential capital methodologies. This distinction must always be kept in mind even while prudential regulators are constructively contributing to the consistent implementation of the accounting expected loss model. Furthermore, prudential regulators should always be supportive of accounting requirements that enable relevant and comparable reporting of a bank's performance, assets and liabilities.

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[8] Schaffer, S. 2010. "Fair Value Measurement: Villain or Innocent Victim." Working paper, Federal Reserve Bank of Boston (January). This paper provides empirical evidence showing that any claim of unnatural pro-cyclicality of accounting information is overstated. The paper reviewed the effects of write-downs on capital replenishment for 14 large US banks and found that 15.6% of replenishment was due to incurred loss impairments and only 2.1% was for fair value measured items. In other words, fair value write-downs were insignificant compared to amortised cost based write-downs.

Address Interest Income Recognition and Disclosures

Net interest income is a primary source of revenue for most banks and the net interest margin is a key performance metric. Use of an expected loss model impacts both the impairment expense and net interest income on the income statement. Yet as we noted in our 2013 comment letter, despite being impacted by the expected loss model, there was limited outreach to investors on interest income recognition and measurement resulting from the change in impairment method. Similarly the Consultative Document does not address interest income measurement, presentation and disclosures and we recommend that some guidance be provided to encourage consistent reporting of interest income.

Strongly Support Measures to Ensure Comprehensive Disclosures

We have consistently argued that disclosures cannot substitute for appropriate recognition and measurement. Rather, recognition, measurement, and disclosure constitute three essential components of effective reporting. Disclosures should not just be viewed as being an artefact of, or a remedial measure to, any chosen recognition and measurement approach or, as a sufficient remedial alternative to differences between accounting regimes. Nevertheless, for a model as complex as an expected loss model, comprehensive, high quality disclosures are an indispensable aid for investors. As such, we strongly agree with the central message of Principle 8, where the BCBS encourages banks to continue to improve their disclosures with the aim of providing information that is relevant and comparable. We particularly agree with the BCBS's call for banks to go beyond providing baseline financial statement disclosures and to provide disclosures that fairly depict a bank's exposure to credit risk, including its expected credit loss estimates, and to provide information on a bank's underwriting practices.

Effectively, there is need for a package of disclosures that inform on the economics of credit risk management. The need for enhanced disclosures is important because as the Consultative Document points out, an expected loss model depicts relative credit risk (i.e. changes in credit risk relative to conditions at inception) — yet for meaningful comparability across banks, there is also need for investors to monitor the level of and trends in absolute credit risk exposure of each bank and comprehensive disclosures can help investors achieve that objective.

In our previous commentary, we supported the disclosures required by IFRS 9 including: the reconciliation of allowance accounts; explanation of gross carrying amounts showing key drivers for change; gross carrying amount per credit risk grade; and write-offs, recoveries and modifications. We also highlighted several key disclosures in addition to those required under IFRS 9 and we reiterate the need for these disclosures*:*

- *Credit Loss Development*: Development of credit loss estimates over time including a quantitative development table and qualitative description of changes in circumstances. This disclosure was supported by 79% of the respondents to our aforementioned 2013 survey who considered these disclosures to be "important" or "very important". While rollforwards will provide information on the activity in the account, they will not provide investors with insight into the adequacy of management's judgments over time or how, when and why such estimates are changed. Accordingly, the Boards should require that entities provide a development of their expected loss estimates over time including a quantitative development table and qualitative description of changes in circumstances – much like insurers are required to provide on their loss reserve estimates.

- *Cash Flow Characteristics of Financial Instruments*: This disclosure was supported by 75% of the 2013 survey respondents who considered these disclosures to be "important" or "very important". Our previous outreach to members and investors during the IASB ECL & FASB CECL Exposure Draft comment periods revealed that investors find the disclosure of the cash flow characteristics to be highly decision-useful information. There was an expectation from investors who had supported a mixed measurement model that they would also be provided with these cash flow characteristics to enable the independent valuation of the financial instruments.

- *Loan Fair Values*: Both IFRS and US GAAP currently require the disclosure of fair values for loans that are recognized at amortized cost. As described above, fair value information has vital information content as it encompasses impacts of updated interest rate, pre-payments, recoverability of future cash flows and illiquidity premium on the value of loans. That said, as was pointed out by a recent Bank of England ("BOE") paper (*Understanding the Fair Value of Loans*) and by the CFA Institute publication *Financial Crisis Insights on Bank Performance Reporting – Volume 2*[9], there is a need for disclosures that explain the sources of difference between loan fair values and carrying amounts.

  Unlike recognized carrying values, a fair value measurement reflects the effect of interest rate changes on loan values. As such, as the BOE paper contends, either fair value gains or losses can be predictive of the impact of interest rate changes on net interest income.

- *IASB ECL, FASB CECL vs Basel ECL*: We also support the call in Paragraph 78 of the Consultative Document, for banks to disclose similarities and differences in the methodology, data and assumptions used in measuring expected credit losses for accounting purposes and expected credit losses for regulatory capital adequacy purposes. As noted earlier, it is important to communicate to investors about any sources of differences between accounting methods as in the IASB ECL and FASB CECL and regulatory models as in the Basel ECL.

We encourage banks to provide the above disclosures since they help investors understand management judgments and how economic and business model factors affect loan values. Finally, we welcome the efforts undertaken by the Financial Stability Board ("FSB") to coordinate dialogue across key stakeholders (securities regulators, auditors, banks and investors) via the recently hosted Basel roundtable and through extending the work of the Enhanced Disclosure Task Force ("EDTF") to identify disclosures required by investors to better understand the portrayal of credit risk management.

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[9] Our study showed that the differences between recognized carrying values and disclosed fair values of loans tended to vary by jurisdiction. For example, carrying value was usually greater than disclosed fair value for UK banks and less than fair value for Spanish and Italian banks. The reasons underpinning the differences between the recognized carrying values and disclosed fair values could not be extracted from available disclosures.

Support Minimization of Exceptions and Practical Expedients

We strongly concur with Paragraph A46 where the BCBS considers it inappropriate for internationally active banks to apply exceptions and practical expedients (e.g. 30+ days past due status) to determine if there has been a significant increase in credit risk. As articulated in Paragraphs A59 to A62, the potentially subjective application of practical expedients will: a) undermine the comparability of reporting entities and b) potentially bias the measurement towards conservative impairment and result in too little, too late recognition of losses.

Consider Auditability of Standard

Estimates are an integral part of accounting information and the professional auditor has always audited various types of estimates and management judgments. Nevertheless, various auditor regulatory findings by the International Forum of Independent Audit Regulators (IFIAR) point to the need to ramp up auditor capabilities in respect of providing assurance at a satisfactory level on measurements made under uncertainty (i.e. measurements that are based on management estimates and forward looking information inputs). For example, the *2014 IFIAR report* shows that there were a number of findings (46 out of 244 audits inspected) related to the audit of the allowance for loans. One can infer that because an expected credit loss approach is more judgment intensive and complex than the current incurred loss model, there is greater likelihood of auditor shortcomings emerging with the new model.

We are aware that there is a potential International Audit and Assurance Standards Board (IAASB) work-stream (*Special Audit Considerations relevant to Financial Institutions*) that will review the adequacy of International Standards of Auditing (ISAs) related to loan impairments. This begs the question of whether any updated ISAs will be available by the implementation date of IFRS 9.

Expand Scope of Guidance

The scope of the BCBS Consultative Document is limited to lending exposures**.** At one level, the focus on lending exposures is understandable as these exposures comprise the bulk of assets for most banks. However, IFRS 9 also applies to the impairment of other financial assets including debt and equity securities and these securities can comprise a significant portion of a financial institution's balance sheet – typically 10-20% of assets. As highlighted in our 2015 Publication, *Analyzing Bank Performance: Role of Comprehensive Income*, these securities often experienced significant and sustained losses and contributed to the erosion of the net asset values of reporting banks. At the same time, the *2013 European Securities Markets Association (ESMA) report*[10] which reviewed 2012 financial statements of 38 European Union banks highlighted the subjectivity in impairment of securities that are classified as available-for-sale under current reporting requirements. Hence, in a similar vein to lending exposures, there is an imperative of ensuring the appropriate and consistent impairment of debt and equity securities to ensure that reported earnings are comparable.

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[10] ESMA. 2013. "Review of Accounting Practices: Comparability of IFRS Financial Statements of Financial Institutions in Europe".

CFA Institute

Regulator Coordination to Eliminate Differences in IFRS Reporting Jurisdictions

Anecdotal evidence suggests that even within jurisdictions that have the same accounting framework (i.e. those that have adopted IFRS), the intervention of national supervisory bodies has been a contributing factor to differences in the application of the incurred loss model. Thus, there is a need for the securities regulators and supervisory bodies (i.e. national competent authorities) to work to eliminate differences in IASB ECL model application across all IFRS reporting jurisdictions.

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Thank you again for the opportunity to comment on the Consultative Document. If you or your staff have questions or seek further elaboration of our views, please contact either Vincent Papa, PhD, CFA, by phone at +44.207.330.9521, or by e-mail at vincent.papa@cfainstitute.org or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

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Standards & Financial Markets Integrity Division
CFA Institute

/s/ Ashwinpaul C. Sondhi

Ashwinpaul C. Sondhi
Chair
Corporate Disclosure Policy Council

cc: Corporate Disclosure Policy Council