BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly from those versions sent directly to firms.

Victoria Saporta
Executive Director, Prudential Policy
Prudential Regulation Authority

15 February 2021

Dear CFO

Disclosures about International Financial Reporting Standard (IFRS) 9 expected credit losses

You will be aware, from earlier letters from Sam Woods and me,[1] of the importance the PRA attaches to good market disclosure about IFRS 9 expected credit loss accounting (ECL). That is the reason we, the Financial Conduct Authority, and the Financial Reporting Council have been sponsoring a taskforce comprising preparers and market participants (the Taskforce on Disclosures about Expected Credit Losses) that has issued two reports on what good ECL disclosure looks like.

The Taskforce's first report 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures' was published in November 2018.[2] A year later, the Taskforce issued a second report 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures (now including some illustrative examples and other guidance material).[3] This second report made a few changes to the recommendations in the first report and supplemented those consolidated recommendations with material intended to be helpful in guiding firms towards disclosure formats that are broadly harmonised.

As noted in my letter of January 2019,[4] the PRA expects your firm to be looking to adopt the first report's recommendations in full – as amended of course by the second report - consistent with the commitments made in the British Bankers' Association Code for Financial Reporting Disclosure (BBA Disclosure Code).[5] The recommendations were intended to be stretching, so we knew that at least some firms would not be able to provide all the disclosures described in full immediately. With that in mind, I encouraged your firm to make progress as quickly as possible and noted that the PRA would from time-to-time be asking your firm to update us on that progress.

It is now two years since that letter, so we are asking for an update on progress. In particular, I should be grateful if you could let me know:

- how far your firm has progressed in adopting each of the Taskforce's recommendations. I should be grateful if you could please provide that assessment against each recommendation; and
- what your firm's plans are for adopting the recommendations not so far adopted in full.

The guidance and illustrations in the second Taskforce report are not covered by the BBA Disclosure Code in the way the recommendations are, so the expectations as to their adoption are different. Nevertheless, I would be grateful if you could explain how your firm has to date responded to that

1 All these letters can be accessed from: https://www.bankofengland.co.uk/prudential-regulation/letter/2017/transition-disclosures-for-ifrs9-financial-instruments.

2 https://www.frc.org.uk/getattachment/dbd534bb-a25e-43f5-9c76-4319cf624c83/DECL-Report-November-2018.pdf.

3 DECL-updated-guidance.pdf (frc.org.uk)

4 Letter from Victoria Saporta - Disclosures about International Financial Reporting Standard (IFRS) 9 expected credit losses (bankofengland.co.uk)

5 The seven groups are those headed by Barclays PLC, HSBC Holdings plc, Lloyds Banking Group plc, Nationwide Building Society, Natwest Group plc, Santander UK plc and Standard Chartered PLC. The BBA Code for Financial Reporting Disclosure can be found at BBA adopts new Disclosure Code *Adopted by UK Finance 1/7/17 | BBA

material and what your plans are for responding to it in the future. It would be helpful if, in your explanation, you could refer to each illustration individually to the extent that is practicable.

While providing this information is voluntary, your response will help us in the work we are doing to encourage UK banks to embrace the objective underlying the Taskforce's work, which is the provision of a high quality, comprehensive and comparable set of ECL disclosures. The transparency such disclosures provides not only helps market participants directly, it also provides the means by which important steps can be taken to achieve greater consistency in the numbers themselves, which further helps market participants and also enables our regulatory capital regime to operate more effectively.

Please could you let me have your response (by email to [enquiries@bankofengland.co.uk] or by letter) within six weeks of your firm finalising its 2020 (or 2020/21) year-end annual report. If you have any questions about the contents of this letter, please speak to your usual supervisory contact.

Yours sincerely

Victoria Saporta