Staff paper

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Introduction

1. The purpose of this paper is to analyse the feedback on the application of credit risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, in response to the Request for Information Post-implementation Review of IFRS 9—Impairment (the RFI).

2. This paper provides:
   (a) a summary of staff recommendation and question for the IASB;
   (b) background information on the IASB's activities to gather evidence on the application of disclosure requirements;
   (c) a summary of feedback and staff analysis of that feedback; and
   (d) staff conclusion on whether and when to take action in response to feedback.

3. This paper includes two appendices:
   (a) Appendix A—Analysis of other comments
   (b) Appendix B—Analysis of current practice

Summary of staff recommendation and question for the IASB

4. Based on the analysis in this paper, the staff recommend that the IASB classify as medium priority the matters raised by stakeholders about credit risk disclosures and add a project to its research pipeline to make targeted improvements to the disclosure requirements in IFRS 7 about credit risk.

Question for the IASB
Do IASB members agree with the staff recommendation summarised in paragraph 4 of this paper?

Background

5. During this PIR, the IASB performed several outreach and research activities to gather further evidence about the application of disclosure requirements in IFRS 7 about credit risk, namely:

   (a) outreach in phase 1 of the PIR—attended 30 meetings and spoke to a wide range of stakeholders from across the world. In particular, we attended meetings targeted to users of financial statements (investors), including outreach with Capital Markets Advisory Committee (CMAC) and a roundtable with investors and analysts that focus on financial entities. See Agenda Paper 27 for the IASB's February 2023 meeting for further details.

   (b) academic research about credit risk disclosures—the IASB engaged a team of external academics to independently undertake research on the application of credit risk disclosure requirements in IFRS 7. Agenda Paper 27A of this meeting sets out the research report and findings.

   (c) staff research about credit risk disclosures—we reviewed the credit risk disclosures provided in the financial statements of a sample of entities from different industries and geographies, and of different sizes (see Appendix B for further details). We also reviewed other publications such as benchmarking surveys and regulatory guidelines about credit risk disclosures.

(d) outreach in phase 2 of the PIR—since October 2023, the IASB and staff have attended several meetings with stakeholders, including the IASB's consultative bodies such as March 2024 CMAC meeting to obtain further input on the application issues for credit risk disclosures.

6. The feedback received and evidence gathered from all these activities is largely consistent with the comment letter feedback received in response to the RFI. Therefore, the findings summarised in this paper reflect matters raised in comment letter feedback, outreach feedback (including feedback from investors and CMAC members) and are supported by evidence gathered from research activities.

Summary of feedback

Main feedback

7. As discussed by the IASB at its November 2023 meeting, credit risk disclosures is one of the two areas that attracted most feedback in this PIR.

8. Most stakeholders were of the view that that there are no fatal flaws with the objectives of credit risk disclosure requirements in IFRS 7 and said that the combination of disclosure objectives and specific requirements is the right approach for a general purpose—rather than industry specific—Standard such as IFRS 7.

9. However, most stakeholders (including investors) reported diversity in the information entities provide applying IFRS 7 and some attributed such diversity to the objective-based nature of the requirements and lack of sufficient specific disclosure requirements. They said that, in practice, it is highly subjective for entities to determine whether the information disclosed is adequate or sufficiently detailed to meet the disclosure objectives.

10. To achieve greater consistency, they suggested that the IASB support credit risk disclosure objectives in IFRS 7 with more specific requirements to disclose items of information that would satisfy these objectives in most cases.

11. Stakeholders who raised concerns about diversity in credit risk disclosures further explained that the quantity, quality, and the level of disaggregation of information disclosed by different entities vary significantly in practice. They said that such differences reduce comparability between similar entities and limit the usefulness of information to investors. Some investors said that it is even difficult to analyse the credit risk disclosures of a single entity because of the high volume of disclosures, different aggregation levels applied for different disclosures and no clear explanations about how the information disclosed ultimately reconciles with, or contributed to, the amounts for expected credit losses (ECL) recognised in the financial statements.

12. These stakeholders acknowledged that they do not expect *uniformity* in the credit risk management approaches that entities adopt but expect greater *consistency* in how entities disclose information about them, to allow investors to evaluate credit risk management approaches and analyse the amounts arising from ECL more effectively.

13. Many stakeholders (except some preparers) said that greater consistency in practice could be achieved by adding or amending the specific disclosure requirements, accompanied by application guidance and illustrative examples in IFRS 7 (paragraphs 16–32 provide detailed feedback). However, some of these stakeholders noted that IFRS 7 applies to entities of different sizes and industries. They asked the IASB to consider the proportionality of any potential improvements and balance the need for comprehensive disclosures by larger financial entities with information that is relevant to entities with limited exposure to credit risk. In this context, some stakeholders, including CMAC members, suggested that the IASB only enhance the disclosure requirements for financial entities and consider reducing the requirements for non-financial entities (paragraphs 33–34 provide detailed feedback).

14. In contrast, some preparers (mostly financial entities) said that the IFRS 7 requirements are sufficient and, in their view, strike the right balance between costs

for preparers and benefits to investors. These stakeholders raised concerns that any potential improvements would involve significant costs for preparers to implement which would exceed any incremental benefit to be gained by investors.

15. Finally, some stakeholders also commented on the role of auditors and enforcers in supporting greater consistency in how entities provide credit risk disclosures. They supported their comments by noting the positive effects that the regulatory or industry group recommendations in some jurisdictions have had on the disclosure quality. For example, stakeholders noted that the recommendations by the UK regulators about disclosures, have resulted in banks providing more consistent and high quality ECL disclosures.[1]

Detailed feedback

16. As noted in paragraph 10, most stakeholders said targeted improvements to IFRS 7 are necessary to support greater consistency in disclosures. Feedback related to:

(a) classes of financial instruments and level of aggregation; and

(b) more specific disclosure requirements about:

(i) sensitivity analysis;

(ii) post-model adjustments or management overlays (PMAs);

(iii) significant increases in credit risk (SICR);

(iv) forward-looking information; and

(v) reconciliation of the ECL allowance and changes in gross carrying amount of assets.

17. As noted in paragraph 13, some stakeholders also suggested that the IASB reduce the disclosure burden for non-financial entities. However, a few others cautioned that

[1] Three UK regulators, the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulatory Authority jointly established a UK taskforce on disclosures of ECL which publishes reports with recommendations for a comprehensive set of ECL disclosures. These reports include recommendations on information to be provided on judgemental areas of ECL, along with illustrative best practice examples.

distinguishing between financial versus non-financial entities might add complexity, particularly, for conglomerates that consist of entities operating in various industries.

Classes of financial instruments and level of aggregation

18. Some stakeholders suggested improvements to the concept of *class* of financial instruments set out in paragraph 6 of IFRS 7. That paragraph requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and consider the characteristics of those financial instruments, when IFRS 7 requires disclosures by class of financial instrument.

19. Specifically, these stakeholders said that the IASB should either specify the class of financial instruments that is appropriate to the nature of information required by each disclosure requirement or provide application guidance to support greater consistency in how entities decide the appropriate level of aggregating financial instruments into classes.

20. There was, however, no consensus among these stakeholders about what generally is an appropriate level of aggregation—for example, a prudential regulator suggested that IFRS 7 requires financial instruments are grouped by *types of lending* for financial entities (eg retail secured, retail unsecured and corporate lending); some investors suggested grouping of financial instruments and the related ECL *by sector* of the economy.

Sensitivity analysis

21. Most stakeholders noted that, unlike for market risk, IFRS 7 has no specific requirements to disclose sensitivity analysis for credit risk. Although some entities (eg many financial entities) provide sensitivity analysis for sources of estimation uncertainty applying IAS 1 *Presentation of Financial Statements*, other entities do not disclose such an analysis.

22. Stakeholders also said that even for entities that disclose this information, there is significant inconsistency in how they provide sensitivity analysis. Specifically, entities disclose sensitivity of ECL allowance to different factors (such as forward-looking scenario probability weightings, key macroeconomic variables, or changes in the probability of default). Comparability among entities is therefore limited.

23. These stakeholders suggested that the IASB add specific requirements for an ECL sensitivity analysis to enable investors to evaluate the effects of future uncertainties on ECL. For example, many suggested requiring entities to disclose sensitivity to probability weightings assigned to scenarios such as how the ECL amounts would have been affected if a 100% weighting were to be assigned to the pessimistic scenario.

Post-model adjustments or management overlays

24. As discussed at the IASB's March 2024 meeting, most stakeholders reported a lack of transparency in the financial statements that would allow investors to understand and evaluate judgmental adjustments that management made in determining the ECL allowance. They acknowledged that management makes necessary judgemental adjustments through PMAs, but they said that there is often very limited information about them, even when such adjustments represent a material proportion of the total ECL allowance.

25. Most stakeholders acknowledged that the IFRS 7 disclosure requirements apply regardless of the approach an entity uses to estimate ECL. However, given the frequency with which PMAs are being used, they suggested the IASB add more specific requirements to enhance the usefulness of information for investors. For example, many stakeholders (including investors) said that information that identifies the amount of PMAs as at reporting period, the reasons that led an entity to using PMAs and plans for unwinding of such PMAs would provide useful information.

Determining significant increases in credit risk

26. Many stakeholders said that the information entities currently disclose does not sufficiently explain the approach an entity uses, and the most relevant factors it applies to determine if SICR occurs. These stakeholders reported significant inconsistency in the level of detail in the information disclosed—some entities provide very detailed information about the quantitative and qualitative factors they used to determine SICR for different groups of financial assets; other entities only provide a broad, and often 'boilerplate', description of the factors they generally use to determine SICR.

27. Therefore, some stakeholders (including investors) suggested that the IASB specify 'baseline' information an entity is required to provide about the approaches it has used to determine SICR. They also suggested that the IASB specify the format of the required disclosure to facilitate investor analysis. For instance, these stakeholders suggested that the IASB require specific information about the SICR thresholds for transferring financial assets between ECL stages and the extent to which an entity relies on backstops, such as the 30 days past due rebuttable presumption in paragraph 5.5.11 of IFRS 9. Other stakeholders suggested the IASB provide an illustrative example of a useful disclosure of financial assets that suffered SICR during the period disaggregated by SICR triggers.

Forward-looking information

28. Consistent with the IASB's discussion at the March 2024 meeting, some stakeholders said that there is diversity in the information entities disclose about the forward-looking scenarios and their probability weightings. Some entities disclose extensive quantitative and qualitative information about the forward-looking scenarios and the probability weightings assigned to each scenario, including reasons for change in weightings compared to prior period. Other entities provide a general description of scenarios (eg that the entity uses 3 scenarios) and no information about probability weightings assigned to scenarios.

29. These stakeholders highlighted the importance of this information for investors' analysis of ECL (eg a higher probability weighting assigned to the pessimistic scenario could explain higher ECL allowance). They suggested that the IASB require specific information to be disclosed. For example, by adding a specific disclosure requirement about the forward-looking scenarios an entity used in estimating ECL, probability weightings assigned to each scenario and any changes in such weightings.

Reconciliation of the ECL allowance and changes in gross carrying amounts

30. Some stakeholders (including investors) said that the reconciliation from the opening balance to the closing balance of the ECL allowance is one of the most useful credit risk disclosures. However, despite the requirement in paragraph 35I of IFRS 7, they said that entities do not appropriately explain how the changes in the gross carrying amount of financial instruments contributed to the changes in the ECL allowance during the period. They emphasised that such information is critical to explain the changes in the loss allowance.

31. Therefore, these stakeholders suggested the IASB require the disclosure of the gross carrying amounts of financial instruments to be provided alongside the reconciliation of the ECL allowance, and that such information is provided in tabular format.

32. In contrast, two organisations representing preparers from Asia suggested that the IASB simplify the current disclosure requirements related to gross carrying amount due to substantial operational costs associated with this disclosure. However, they did not further elaborate on the potential simplifications or root cause of operational costs.

Reducing disclosure burden for non-financial entities

33. With regards to the costs of disclosing information compared to benefits of the resulting information, some stakeholders suggested that the IASB consider reducing the disclosure burden for non-financial entities because the volume of required disclosures can sometimes be disproportionate to the nature of their business and their exposure to credit risk.

34. Only a few of these stakeholders, however, identified what disclosures could be reduced and why, for example:

    (a) simplify requirements about write-off policies or collateral management for financial instruments in scope of the simplified approach (eg trade receivables); and

    (b) scope out of disclosure requirements financial instruments which they perceive as 'low risk' (such as corporate bonds, sovereign debt or intragroup instruments).

Staff analysis

35. This section analyses whether, based on the PIR framework, the IASB needs to take action in response to stakeholders' feedback. This assessment is based on whether the feedback provides evidence that:

    (a) there are fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the requirements;

    (b) the benefits to investors of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or

    (c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected.

Clarity and suitability of the objectives or principles in the requirements

36. Paragraphs 35A–38 of IFRS 7 set out objectives and requirements about credit risk disclosures. Paragraph 35B of IFRS 7 identifies three disclosure objectives to assist investors to understand:

    (a) an entity’s credit risk management practices and how they relate to the recognition and measurement of ECL, including the methods, assumptions and information used to measure ECL;

    (b) the amounts in the financial statements arising from ECL, including changes in the amount of ECL and the reasons for those changes; and

    (c) an entity’s credit risk exposure (that is, the credit risk inherent in an entity’s financial assets and commitments to extend credit) including significant credit risk concentrations.

37. Considering the differences in how entities approach credit risk management, the IASB decided to include objective-based disclosure requirements in IFRS 7 to allow entities to decide how much detail to disclose and how much emphasis to place on different aspects of the disclosure requirements.

38. IFRS 7 also requires that, if the disclosures provided in accordance with IFRS 7 are insufficient to meet the objectives in paragraph 35B, an entity discloses additional information that is necessary to meet those objectives.

39. As noted in paragraphs 8–13, stakeholders did not identify fatal flaws with the objectives or principles of credit risk disclosure requirements in IFRS 7. Most stakeholders said that the disclosure objectives for credit risk information are appropriate but reported diversity in the information entities disclose to satisfy some of those objectives. Therefore, they suggested the IASB support the disclosure objectives for these areas with additional specific requirements to achieve greater consistency in the information disclosed.

40. Accordingly, we assess that the PIR feedback does not suggest fatal flaws about the core objectives or principles in the credit risk disclosure requirements. However, it suggests that there might be improvements to be made by adding or amending specific requirements in some areas (such as sensitivity analysis, determining SICR, PMAs, forward-looking information) that would satisfy those objectives. The IASB could, therefore, consider making targeted improvements to IFRS 7 by adding disclosure requirements for particular items of information that would satisfy the relevant disclosure objectives.

41. We note that supporting disclosure objectives by requiring entities to disclose specific items of information that would satisfy those objectives in most cases would be consistent with the guidance for developing and drafting disclosure requirements in IFRS Accounting Standards, developed by the IASB following completion of its project on Disclosure Initiative—Targeted Standards-level Review of Disclosures.

Benefits to investors

42. As explained in paragraphs BC48A–BC48B of the Basis for Conclusions on IFRS 7, during the development of the impairment requirements in IFRS 9, the IASB acknowledged that any approach that attempts to reflect *expected* credit losses will be subject to measurement uncertainty and will place greater emphasis on management's judgement and the quality of the information used. Accordingly, by adding to the credit risk disclosure requirements in IFRS 7, the IASB aimed to meet the additional information needs of investors arising specifically from an impairment model based on expected credit losses.

43. Most stakeholders who responded to the RFI expressed concerns about the quality of particular credit risk disclosures that entities provide (see paragraphs 21–32). They said that inconsistency in the information disclosed prevents investors from evaluating an entity's management judgements, including comparing such judgements between reporting periods for the same entity and between different entities. The overall lack of consistency and the areas identified by the RFI respondents were also reported in

the academic research report (see Agenda Paper 27A of this meeting) and staff analysis of current practice (see Appendix B).

44. In our view, comment letter feedback and other evidence gathered indicates that the benefits to investors of the information arising from applying the credit risk disclosure requirements might be lower than expected. Based in our analysis set out in paragraphs 46–70, we conclude that IFRS 7 might benefit from some targeted improvements to disclosure requirements about credit risk. For example, by supporting disclosure objectives with additional information that entities would be required to disclose to satisfy these objectives.

45. A high-level analysis of the detailed feedback raised by stakeholders about the individual disclosure topics is set out in paragraphs 46–70.

Classes of financial instruments and level of aggregation

46. In the context of feedback requesting more explicit requirements or application guidance about what constitutes a *class* of financial instruments, we note that the concept of class of financial instruments is not unique to the credit risk disclosure requirements—it applies across all IFRS 7. Therefore, any deliberation about this concept would require consideration that is broader than the scope of this PIR being the credit risk disclosures.

47. Paragraph B3 of IFRS 7 further reinforces the principle set out in paragraph 6 of IFRS 7 that an entity decides the appropriate level of aggregation. It explains that doing so is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist investors and obscuring important information as a result of too much aggregation.

48. That paragraph also requires that an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

49. In our view, prescribing a level of aggregation for disclosure requirements would mean moving away from the principle in paragraph 6 of IFRS 7 and might result in counterproductive outcomes. It could result in disaggregation and level of disclosure that does not reflect the nature of the information disclosed and that does not take into account the characteristics of those financial instruments—making the information disclosed not decision useful. Furthermore, because entities have different credit risk exposures and adopt varying credit risk management practices, the appropriate level of aggregation could vary both, from disclosure to disclosure and from entity to entity.

50. Instead, we think that specifying the format (eg tabular) and nature (eg quantitative) of some specific disclosure requirements for which feedback provides evidence of significant diversity may be more effective in supporting greater consistency in the information disclosed. We note that this level of specificity is already present in some IFRS 7 requirements.

51. We considered feedback that some entities disclose information in a way that does not allow reconciliation to the line items presented in financial statements. However, we emphasise that paragraph 6 of IFRS 7 already requires that, in deciding the appropriate level of aggregation / disclosure, an entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position. Therefore, we are of the view that no further requirements are needed for this matter.

Sensitivity analysis

52. Paragraph 125 of IAS 1 requires an entity to disclose the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. [2] These requirements also apply to estimation uncertainty arising from ECL.

2 In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaces IAS 1. Paragraph 125 of IAS 1 is carried forward to paragraph 31A of IAS 8 *Basis of Preparation of Financial Statements*.

53. However, we acknowledge that the fact that a specific requirement for sensitivity analysis is included in IFRS 7 for market risk (see paragraphs 40–41 of IFRS 7) and not for credit risk might contribute to the concerns raised by stakeholders, as described in paragraphs 21–22.

54. In addition to IFRS 7 requirements for disclosing sensitivity analysis for market risk, we note that other IFRS Accounting Standards also set out requirements for sensitivity analysis (eg see paragraph 93(h) of IFRS 13 *Fair Value Measurement* or paragraph 145 of IAS 19 *Employee Benefits*).

55. In our view, given the evidence gathered from comment letter feedback and research and the extent of estimation uncertainty inherent in estimating ECL, we agree that information about the sensitivity of the ECL allowance to particular risk variables or assumptions could be useful information.

Post-model adjustments or management overlays

56. We note that IFRS 7 requires disclosure of information about the *amounts in the financial statements arising from expected credit losses* (see paragraph 35B(b) of IFRS 7). Such requirements, therefore, apply to the ECL amounts, regardless of the method or approach used in estimating such amounts. In other words, ECL amounts arising from PMAs are in scope of these disclosure requirements, just like those arising from statistical models, or any other approach used in estimating ECL.

57. Furthermore, paragraph 35A of IFRS 7 sets out the scope of credit risk disclosures, noting that an entity shall apply credit risk disclosure requirements (ie paragraphs 35F–35N of IFRS 7) to financial instruments to which the impairment requirements in IFRS 9 are applied. Paragraph 35G of IFRS 7 then requires an entity to disclose the basis of inputs and assumptions and the estimation techniques used to measure ECL, changes in the estimation techniques or significant assumptions made during the reporting period and the reason for those changes. Therefore, in our view, there is no ambiguity as to whether IFRS 7 credit risk disclosure requirements would apply to ECL amounts determined through a PMA.

58. Accordingly, we would not suggest that the IASB add disclosure requirements that would target PMAs specifically. As previously noted, the disclosure requirements in IFRS 7 are method / approach agnostic. Prescribing requirements that would apply to a particular method would be inconsistent with the disclosure objectives and requirements in IFRS 7.

59. Furthermore, we note that judgemental adjustments by an entity's management in estimating ECL are not unique to PMAs. Entities make such adjustments even within statistical models. Consequently, specifying disclosure requirements applicable to PMAs only could place undue emphasis on one particular aspect of the ECL amount to the detriment of other aspects. Such an outcome would not provide useful information to the users of financial statements and could result in material information being obscured.

60. However, we acknowledge the feedback that investors do not consider the current requirements to necessarily provide useful information on judgemental adjustments being made to ECL amounts. We therefore suggest that the IASB explore potential amendments to IFRS 7 about disclosure of the information on management judgements, including judgemental adjustments, made in estimating ECL as at reporting period. Such amendments might include specific additions to the current requirements and additional illustrative examples.

Determining SICR

61. Paragraph 35F(a) of IFRS 7 requires an entity to disclose information that enables investors to understand and evaluate how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition. Paragraph 35G(a) further requires an entity to disclose the basis of inputs and assumptions and the estimation techniques used to determine SICR. However, IFRS 7 does not specify items of information that would satisfy these objectives.

62. In analysing feedback about disclosures for determining SICR, we note that stakeholders are not necessarily requesting for disclosure of more information, they

are requesting a more structured 'baseline' information. Specifically, many stakeholders (including CMAC members) said that they would benefit from a disclosure that provides more useful and structured summary about factors an entity used to determine SICR (SICR triggers) and that would be provided in a consistent way to allow for comparison between periods and different entities.

63. For example, consistent with the findings from our analysis of current practice (see paragraph B1(c) of Appendix B), some CMAC members said that although some financial entities provide voluminous information about SICR triggers, understanding what the most relevant SICR triggers are is particularly challenging. For instance, they said it is challenging to understand the portion of financial assets for which it was determined that SICR occurred because of the 30 days past due rebuttable presumption compared to assets for which SICR occurred as a result of applying other quantitative or quantitative factors.

64. Although we acknowledge that uniformity in the SICR approach is not to be expected because, as discussed at the IASB's February 2024 meeting, determining SICR is inherently judgemental and designed to be entity specific (based on the entity's credit risk management practices and nature of its financial instruments), greater consistency in items of information disclosed or a more useful summary of such information could help investors evaluate an entity's approach to determining SICR.

65. We acknowledge stakeholders' feedback that understanding what factors triggered SICR (eg most movements from stage 1 to stage 2) and being able to compare the key SICR triggers with other comparable entities might provide useful information to users of financial statements.

66. Therefore, in the light of feedback and research evidence supporting that feedback, we think the IASB could consider potential improvements to IFRS 7 in this area—for example, by specifying particular items of information that would satisfy the disclosure objective in paragraph 35F(a) of IFRS 7.

Forward-looking information

67. We note that paragraph 35B and 35G of IFRS 7 already require entities to disclose how forward-looking information has been used in determining ECL, including the use of macroeconomic information; and to explain the basis of inputs and assumptions, changes in the significant assumptions made during the reporting period and the reason for those changes. However, IFRS 7 does not specify items of information that would satisfy these objectives.

68. We agree with stakeholder views that disclosure about forward-looking scenarios and related probability weightings are important inputs and assumptions in determining ECL. Accordingly, information about them would assist investors in evaluating ECL approaches between different entities or reporting periods. Therefore, in the light of feedback and evidence gathered supporting that feedback, we think that the IASB could consider potential improvements to IFRS 7 in this area.

Reconciliation of the ECL allowance and changes in gross carrying amounts

69. As explained in paragraphs BC48P−BC48S of the Basis for Conclusions on IFRS 7, the IASB has previously considered requiring the reconciliation of the gross carrying amount of financial instruments alongside the reconciliation of the ECL allowance. However, in response to preparers' feedback about the operational burden of providing a reconciliation of the gross carrying amounts, the IASB clarified that the objective is to provide information about the key drivers for changes in the gross amount to the extent that it contributes to changes in ECL. Examples of such key drivers for change could include new originations and purchases, deterioration of existing financial instruments resulting in the loss allowance changing to lifetime ECL and financial assets being written off during the period.

70. In the light of the feedback about the diversity in outcomes applying IFRS 7 requirements in this area and the importance of this disclosure for investors' analysis, we think the IASB could consider potential improvements to current requirements in paragraph 35I of IFRS 7 as part of targeted improvements to IFRS 7. However, the

IASB would need to carefully consider such improvements in the light of preparer concerns in paragraphs BC48P−BC48S of the Basis for Conclusions on IFRS 7.

Costs of applying the requirements and auditing and enforcing their application

71. We note that overall, stakeholders' feedback does not suggest that the costs of applying, auditing and enforcing their application are significantly greater than expected.

72. However, as noted in paragraphs 33–34, some stakeholders said that credit risk disclosures are excessive for some entities, particularly for non-financial entities and suggested that the IASB consider reducing the disclosure requirements in this regard.

73. IFRS 7 requires disclosure for all financial assets and is not an industry-specific Accounting Standard—therefore, there is no natural boundary between financial and non-financial entities. Nonetheless, in exploring simplifications to credit risk disclosures, the IASB could consider distinguishing between financial instruments to which the simplified approach for recognising ECL is applied versus instruments for which the general approach for recognising ECL is applied. Such a potential boundary might also address stakeholders' feedback about conglomerates (see paragraph 17).

Reducing disclosure burden for non-financial entities

74. In principle, we agree that the IASB could explore potential for reducing current disclosure requirements for non-financial entities—for example, by exempting from specific disclosure requirements the financial instruments in scope of the simplified approach for recognising ECL.

75. We note that comment letter feedback and research activities have not provided sufficient evidence to identify what current disclosure requirements result in potentially excessive disclosures for non-financial entities. However, we think the IASB could consider whether there is potential for simplifications as part of the

targeted improvements to credit risk disclosures, including performing outreach to obtain further evidence for identifying such areas.

76. We also agree with comments described in paragraph 13, that in considering targeted improvements described in this paper, the IASB could consider limiting the potential new requirements only to financial instruments to which the general approach applies (ie not require such information for financial instruments in scope of the simplified approach).

77. In context of reduced disclosure for non-financial entities, we note that the IASB recently issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, which permits an eligible subsidiary to apply IFRS Accounting Standards with reduced disclosure requirements. Applying this Standard would also help address concerns in this area for some entities.

Staff conclusion

Step 1—Is further action needed?

78. As noted in the feedback section of this paper, evidence gathered (ie majority of comment letter feedback, outreach, including feedback from CMAC members, and staff and academics research) all demonstrate the same problem—inconsistency in particular disclosures that entities provide about credit risk.

79. Based on the staff analysis of the feedback and research evidence, we agree with stakeholders' feedback that some targeted improvements to IFRS 7 might support greater consistency in credit risk disclosure. We note that, in most cases, the disclosure objectives in IFRS 7 already require broader information in the areas that stakeholders have suggested more specific information is required.

80. Therefore, in most cases, potential improvements would be consistent with the current disclosure objectives, hence largely incremental to current requirements. For example, such improvements could, in some cases, be in the form of additional specific

information required to support the disclosure objectives in IFRS 7, or in other cases it could be specifying the format or nature of the specific disclosure. The IASB could identify particular disclosure areas (for example, sensitivity analysis, judgemental adjustments, determining SICR). In our view, illustrative examples alone would not appropriately address the problem because examples are non-authoritative.

81. As noted from the staff analysis section of this paper, we assess that most of the PIR criteria for taking action are present. Accordingly, we recommend the IASB take action relating credit risk disclosures.

Step 2—Is the finding high, medium or low priority?

82. Based on our analysis in paragraphs 84–89 against the PIR framework, most of the prioritisation characteristics are present to a large extent and the benefits of any action are expected to exceed the costs. The evidence gathered however does not suggest that solutions are needed urgently.

83. Therefore, in accordance with the PIR framework, we recommend the IASB classify matters relating credit risk disclosure as medium priority and thus, add a project for this matter to its research pipeline.

Does the matter have substantial consequences?

84. We agree with stakeholders' feedback that because of the measurement uncertainty and inherently high level of judgement involved, the ECL model relies on high quality disclosures. This is consistent with the IASB's rationale for developing credit risk disclosure requirements to meet the additional information needs of investors that arise specifically from an expected and forward-looking credit losses model.

85. Therefore, we think that inconsistency in disclosures about credit risk (particularly in areas that involve significant management judgement) might have substantial consequences for decision-useful information to investors.

Is the matter pervasive?

86. Credit risk disclosure requirements apply to financial instruments subject to impairment requirements of IFRS 9. Most entities have financial instruments that are subject to impairment. In this context, majority of feedback and all research evidence provide evidence about inconsistency in disclosures for several areas. Therefore, we assess that the matter is pervasive.

Can the matter be addressed by the IASB or the IFRS Interpretations Committee?

87. Yes, as noted in paragraph 79, we think that the IASB could consider targeted improvements to IFRS 7 to support greater consistency in credit risk disclosures. In addition to potential specific disclosure requirements, the IASB could also consider specifying the format and nature of particular requirements.

88. Nonetheless, consistent with stakeholders' feedback summarised in paragraph 15, we note that due to the principle-based nature of the ECL model and the related objective-based credit risk disclosure requirements, the role of parties such as auditors and regulators will remain important to support decision-useful credit risk disclosures, including greater consistency in how entities provide such disclosures.

Would the benefits of any action be expected to outweigh the costs?

89. In our view, the benefits relating the usefulness of information to investors would be expected to outweigh the costs for preparers. In reaching this view, we considered:

(a) *greater consistency in disclosure is needed for investors*. In this PIR, the IASB received feedback that the diversity in information arising from applying the requirements is reducing the usefulness of credit risk information to investors. If the disclosure objectives could be supported by specific information required for those main areas of diversity, greater consistency in credit risk disclosures would be achieved, making information more useful to investors. Furthermore, improvements relate to some of the most judgemental areas of the ECL model (eg SICR, PMAs, forward-looking scenarios)—greater consistency might assist investors in better evaluating such judgements.

(b) *potential enhancements largely consistent with current disclosure objectives*. As noted in the staff analysis, most of the potential improvements requested from stakeholders relate to information arising from current disclosure objectives in IFRS 7. Therefore, most disclosure enhancements might be incremental to existing requirements, not necessarily brand-new requirements.

(c) *costs vs benefits to be considered in developing potential requirements.* We agree with feedback noted in paragraph 13—that, in exploring potential improvements to credit risk disclosures, the IASB would need to achieve an appropriate balance between incremental benefits to investors and additional costs for preparers (for example, by considering whether specific requirements should only apply to financial instruments in scope of the general approach). Assessment of costs and benefits is consistent with the IASB's approach to developing any disclosure requirements.

Appendix A—Analysis of other comments

The following table summarises other disclosure comments identified by a few stakeholders. Based on our analysis, we conclude that no further action is needed in response to these comments.

Feedback	Staff analysis	Conclusion
Effect of climate-related risks in the measurement of ECL		
Some stakeholders suggested that the IASB provide guidance and illustrative examples for disclosures about how climate-related risks have been incorporated in estimating ECL (see Agenda Paper 27A for the IASB's March 2024 meeting).	We note that, as part of the Climate-related and other uncertainties in the financial statements project, the IASB has tentatively decided to provide some examples, including a potential example illustrating disclosure requirements in IFRS 7 about the effects of climate-related risks on an entity's credit risk management practices and how these practices relate to measuring ECL. If the IASB were to add such an example to IFRS 7, we think that would address the feedback in this area.	No further action.
Other credit risk disclosures		
A few stakeholders also suggested specific disclosure requirements for other areas such as revolving credit facilities, modified financial instruments and ageing of trade receivables.	We note that the PIR feedback does not suggest that these disclosure matters are prevalent. We also note that IFRS 7 requirements broadly capture such information: • paragraph 35M of IFRS 7 requires information about loan commitments and trade receivables. • paragraph 35J of IFRS 7 requires information about modifications. Nonetheless, we note that the IASB's Amortised Cost Measurement project will consider requirements about modifications of financial instruments and might consider disclosure improvements.	No further action.

Appendix B—Analysis of current practice

B1. To inform the IASB's response to the PIR feedback, we did a desktop review of financial statements of 30 banks (20 global systemically important banks and 10 small-medium size banks) and 10 corporates, examining how entities disclosed credit risk information applying IFRS 7. Our main findings are:

(a) *sensitivity analysis*. Not all banks in the sample disclosed sensitivity analysis for ECL. Among banks that provided such disclosure, most disclosed sensitivity analysis over changes in weightings of forward-looking scenarios and/or changes in key macroeconomic variables. Others disclosed sensitivity over other factors such as changes in probability of default or changes from stage 2 to stage 1. The disaggregation level at which disclosure was provided also varied—some banks disclosed information by each main portfolio; others did it at a different level or at the level of the total ECL amount.

(b) *PMAs*. Some banks provided no information about PMAs. The banks who provided such disclosure, the information about PMAs varied significantly—some provided brief and generic qualitative information (eg that PMAs were recognised due to rising inflation) without any accompanying detail about key inputs or assumptions used in determining the adjustment and no quantitative information. A few others disclosed detailed information about the reasons for PMAs and any changes thereof, and quantitative information such as PMA amounts by portfolio and by ECL stage.

(c) *determining SICR*. Almost all banks in our sample provided some information about their approach to determining SICR. However, the quantity and quality of the information disclosed varied significantly from bank to bank:

(i) some banks provided generic descriptions about factors they consider in determining SICR, repeated requirements of IFRS 9 with no entity-specific information (eg quantitative and qualitative factors considered with 30 days past due backstop);

(ii) a few banks provided summary information about the types of factors they consider but there was no portfolio specific information or explanation of the extent such factors contributed to the significant increases in credit risk during the reporting period; and

(iii) some other banks disclosed extensive quantitative and qualitative information about SICR triggers and disaggregated that information by portfolio. In addition, consistent with regulatory recommendations, some UK banks provided a structured summary, in a tabular format, showing decomposition of stage 2 assets setting out the reasons why a financial instrument was determined to have SICR (ie what portion of ECL were triggered by quantitative or qualitative factors and how much was triggered from financial instruments being 30 days past due).

(d) *reconciliation of the ECL allowance and gross carrying amount of assets*. Many of the banks in our sample provided some information about gross carrying amounts; a few however did not disclose such information despite it being required by paragraph 35I of IFRS 7. There were significant differences in how banks explained how the changes in the gross carrying amounts of financial instruments contributed to the changes in the loss allowance:

(i) some banks provided a reconciliation of the gross carrying amount and loss allowance in a tabular format, consistent with the illustrative example IG20B accompanying IFRS 7;

(ii) a few banks provided a reconciliation of the gross carrying amount and loss allowance as separate columns within the same table and disaggregated such information by ECL stages; and

(iii) other banks provided narrative explanations with a few key figures about changes in the gross carrying amounts but without no clear link to the changes in ECL that were reported in a different disclosure. Therefore, in such cases it was challenging to evaluate to what extent changes in the gross carrying amount contributed to changes in ECL.

(e) *trade receivables*. Corporates in our sample generally applied the simplified approach to recognise ECL and used the provision matrix for ECL of trade receivables as a practical expedient. However, some corporates did not disclose provision matrix even though they stated that they used such a matrix and did not provide any other disclosures about credit quality of their receivables despite it being required by paragraphs 35M-35N of IFRS 7.

(f) *other credit risk disclosures of corporates.* For the corporates in our sample, we did not identify extensive information was being provided about credit risk. For example, none of the corporates in our sample provided any information about write-off policies or information about collateral management (see paragraph 34).