Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Submitted electronically to www.ifrs.org

5th November 2013

Dear Mr Hoogervorst

EFFECTIVE DATE OF IFRS 9

We would like to express our views concerning the potential effective date of IFRS 9, Financial Instruments. The British Banker’s Association (‘BBA’) represents over 200 banks from 50 countries on UK and international banking issues.

In order to maintain public confidence in financial reporting, and particularly the financial reporting of banks, it is of vital importance that IFRS 9 is completed and implemented as soon as possible. However, it is also essential to public and investor confidence not only that the IASB completes IFRS 9 to a high standard, but also that sufficient time is permitted to enable a high quality implementation by financial institutions and other companies.

The planning work performed by the institutions represented on the BBA Impairment Working Group has highlighted the challenges in implementing the impairment proposals as set out in the March Exposure Draft, IFRS 9, Financial Instruments: Expected Credit Losses, and has reinforced our original views, expressed in both the comment letter of the BBA and those of our individual member institutions, that banks require three years from the issuance of the final standard to implement IFRS 9 to the standard required for financial reporting by public companies and especially financial institutions.

There are many reasons for this period including the size and complexity of the necessary changes to systems and processes, the volume of data required by the model, the limited pool of skilled resources required for the implementation available in the market, the need for guidance to develop on the interaction with regulatory capital requirements and the need to inform market expectations of the accounting, regulatory capital and business impacts in advance of the final standard coming into force.

The planning work has established that for banks the complexity and cost of the IFRS 9 implementation is likely to be second only to the Basel II implementation, and broadly equivalent to the entire first time adoption of IFRSs in 2005.

Why can’t banks do more to prepare in advance of a final standard?

It is not efficient to carry out significant implementation effort without the final standard being available. For example, it is not possible to finalise the scope of the implementation of the new impairment proposals until the classification and measurement elements of IFRS 9 are completed and it is known which assets the impairment model will apply to. Final guidance on all aspects of IFRS 9 is now only expected to be completed in the second quarter of
2014. In addition, we understand that regulators will not consider the impact of the guidance on regulatory capital until the accounting standard is final.

The impairment proposals specifically are also still subject to change. It is unwise to proceed with an implementation project for a change of this magnitude without final requirements due to the significant risk of rework and wasted resource.

Even an ostensibly small change in accounting or disclosure requirements could have serious implications for the risk models, data and systems changes needed. For example, until disclosure requirements are finalised and all the required data fields are known, it is not possible to start building granular system interfaces to capture the information. The critical path for building such interfaces can be lengthy due to the design, build and testing required and because, due to reporting requirements, work on systems can often only be performed during certain times in a year.

Nevertheless, it would be very helpful for the IASB to provide an early indication of the likely effective date, even before finalising the standard, as this would make it easier to commit resources, and enable a range of activities to start in preparation for the larger project to come, with some confidence that the scarce resources can be deployed as efficiently as possible.

Why will IFRS 9 take so long to implement?

The implementation of IFRS 9 in general will be a large and complex project. The impairment proposals in particular will involve the construction or significant adaptation of risk models for all portfolios within the scope of the requirements. It will also require the development and introduction of entirely new processes, such as systematically capturing significant deteriorations in credit quality, and the application of the appropriate forward looking data to the measurement of the resulting lifetime expected loss, as well as significant system changes.

The availability of historical data and trend information is also critical for assessing credit deterioration over time and estimating expected credit losses. For many portfolios, this information will need to be collected or estimated for the first time. It is vital that sufficient time is allowed for data to be collected and trend information to be developed in order to implement the approach to the required standard. This is even more critical for smaller banks that may use less sophisticated systems to manage credit risk. However, it is likely that most, if not all, banks will be collecting at least some of the necessary data for the implementation of IFRS 9 for the first time.

The time required to develop credit models depends on many factors, including the existence of models that can be adapted and used to implement the requirements and the availability of data. Even for portfolios which are currently modelled for regulatory purposes under the Advanced Internal Rating Based (AIRB) approach, and for which data availability is good, we estimate that 4 to 5 months will be required to develop IFRS 9 compliant models. Needless to say, many loan portfolios are not modelled under the AIRB approach, and are not so data rich. Large institutions have hundreds of credit models which will need to be substantially redeveloped and therefore the modelling effort alone is large.

Given the scale of the changes, a one year parallel run period is considered essential. Such a period is required to perform systems and process dry runs to prove the reliability of the new models and the reporting systems, as well as to provide management with sufficient time to understand the assumptions, judgements and sensitivities involved in determining impairment allowances under the new requirements.
The implementation of IFRS 9 will require a significant number of specialist resources, and the shorter the time allowed for implementation, the greater the number of incremental resources that will be required. Finding, recruiting and on-boarding the necessary level of specialist resources to support implementation will in itself take a considerable time. All banks will be looking for the same resources from a small and competitive pool and there are many other competing regulatory projects also requiring similar resource. This raises the very serious risk that implementation simply may not be achievable without a suitable lead time.

**Why is the interaction with regulatory capital requirements so important?**

Managing the impact on regulatory capital will be a key element of the implementation of IFRS 9 for all banks. It is through its impact on regulatory capital that the standard will have its most profound commercial and economic effects.

The interaction of IFRS 9 with the regulatory requirements is likely to be complex. The impacts are likely to affect particular businesses, products and geographies to varying degrees. It is also not known whether there will be any changes to the regulatory framework to accommodate the new accounting.

Regulators are likely to only consider their responses and any new regulatory capital guidance required once a final standard has been issued. Even if the regulatory requirements do not change, the guidance under the Capital Requirements Directive IV (‘CRD IV’) is drafted in the context of an incurred loss model and regulators will need time to adapt the guidance to the expected loss model, following the issuance of the final standard.

Taxation authorities will also require time to consider their responses, in the same way and in a similar timescale.

**What other regulatory projects are banks dealing with?**

Banks are currently in the process of implementing a number of significant regulatory projects which involve demands on similar resources across Risk and Finance functions. These projects include CRD IV, EBA Guidelines on Common Reporting, EBA Guidelines on the Financial Reporting Framework, the disclosure recommendations of the Enhanced Disclosure Task Force, and the Firm Data Submission Framework. The change in accounting for impairment will take its place alongside such projects but will require the same resources both at the firm-wide and at the business level and draw upon the same expertise and infrastructure. We consider that the ability of the projects to leverage off each other is limited.

**What are the external reporting requirements?**

Although restatement of comparatives will not be required under IFRS 9, the mandatory disclosure requirements upon transition and before transition in accordance with IAS 8, *Accounting Polices, Changes in Accounting Estimates and Errors*, mean that banks will need to be able to produce estimated results under the new impairment requirements in advance of the mandatory effective date. However, communication to the market is likely to drive the earliest need for IFRS 9 results.

The market will not wait until the year of adoption to seek to understand the impact of IFRS 9; furthermore, listing rule requirements may demand disclosure of an estimated impact if market expectations are significantly different to a bank’s internal analysis. Banks will inevitably need to inform the market, through pro-formas and investor briefings, about the
likely financial impact of the changes both from an accounting and a regulatory capital perspective, so that banks’ results under IFRS 9 can be forecast.

Communication to the market is likely to be necessary in 2016 even given a 1 January 2017 adoption date. If adoption is set earlier than this, banks will be in a difficult position. Given the time taken to create impairment models described above, most will be in the model building, not the parallel running phase at this time. An analysis of the likely timing of publication of IFRS 9 impacts is provided below as Appendix 1.

**Other considerations**

The Expected Loss model will involve significant amounts of judgement to arrive at reasonable and supportable forecasts. Appropriate governance will need to be developed and put in place well in advance of implementing IFRS 9 in order to ensure alignment of forecast methodologies among portfolios and consistency in application of policy throughout each banking group. This is a significant undertaking for banks that operate in many geographical locations, where macro-economic conditions differ by region. This cannot be achieved within a short timeframe.

The volume and complexity of the disclosures proposed in the Exposure Draft must also be considered. These disclosures require significant integration of risk and finance data, which introduces significant challenge in the existing data collection process. The interaction of IFRS disclosure requirements with other credit risk disclosure requirements from the regulators and listing authorities will further increase the amount of disclosures required. Sufficient time must be allowed to analyse, plan and deliver these disclosures.

The FASB are likely to require lifetime expected losses to be recognised on all exposures within the scope of their impairment model. It is still to be finalised, but it is becoming apparent that their definition of lifetime expected losses will not be the same as the IASB’s definition. There are also a number of other key differences between the two models. Any implementation project for banks with operations reporting under US GAAP (or indeed, we understand, for US banks with subsidiaries that report in IFRS jurisdictions) would most efficiently deal with both sets of requirements concurrently for their US operations, particularly as these US operations will need to be able to fully explain the differences between them.

For SEC foreign-private issuers, the interaction with EU endorsement is also critical with the potential risk of having to report both under IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, or alternatively report under IAS 39 with reconciliation to US GAAP, if insufficient time is allowed for the EU endorsement process to complete prior to the mandatory effective date.

**Conclusion**

In view of the complexity and challenges of IFRS 9 implementation faced by the banking industry in the UK, we re-iterate that three years from the date of issuance of the final standard will be needed to implement IFRS 9 in the robust and properly controlled manner that we, our investors, our auditors and our regulators expect. Any shorter period than this would present unacceptable operational risks to the quality and success of the implementation, and drastically reduce the amount of time for parallel running, testing and market communication. Predicated on the finalisation and issuance of the standard in the first half of 2014, we believe that an effective date of 1 January 2017 would be challenging but achievable. The IASB providing an early indication of the likely effective date would assist in meeting this challenge.
We would be pleased to assist the Board with any questions it has on IFRS 9 implementation, including providing more details around the implementation issues, and would be pleased to meet with the staff and Board members if that would be helpful.

Yours sincerely

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Executive Director

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## Appendix 1

### IFRS 9 Implementation timetable: When will IFRS 9 impacts be made public?

The below analysis assumes a 1 January 2017 effective date and a 31 December reporting year end.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Disclosures</th>
<th>Timing</th>
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<tbody>
<tr>
<td>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>Annual financial statements prior to adoption date</td>
<td>Note that until the final standard is published, it is not possible to quantify the effects.</td>
</tr>
<tr>
<td><strong>Annual financial statements prior to adoption date</strong>&lt;br&gt;IAS 8 paragraph 30. When an entity has not applied a new IFRS that has been issued but is not effective, known or reasonably estimable information relevant to assessing the possible impact of the new standard on the entity’s financial statements in the period of initial application.</td>
<td>No concrete requirement to provide quantified disclosure – however, in practice entities do, and there is likely to be pressure from auditors to quantify as soon as reasonably reliable information becomes available.</td>
<td>This will depend on each firms implementation programme. However the pace is likely to be set by the first to market.</td>
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<td>Implies a disclosure in Annual reports for 31 December 2014 or 31 December 2016 at the latest</td>
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<tr>
<td>IAS 34 Interim Financial Reporting</td>
<td>Interim financial statements prior to adoption date</td>
<td>None</td>
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<tr>
<td><strong>Interim financial statements prior to adoption date</strong>&lt;br&gt;There is no similar requirement for interim financial statements under IAS 34</td>
<td>None</td>
<td></td>
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<td><strong>General market pressure</strong>&lt;br&gt;Even before the standard is finalised, investors and analysts will be interested in understanding the impacts on profits, ROE, EPS, and capital of this significant change. Unlike previous significant changes (IAS 19, Employee Benefits, (‘IAS 19’)) it is impossible to estimate from other disclosures.</td>
<td>Analyst briefings which may indicate the effects on Group level and divisional profit or loss, capital ratios, leverage, EPS etc at a high level. Discussions with regulators on capital effects including leverage and Recovery and Resolution plans.</td>
<td>At any time up to the publication of the first Annual Report under IFRS 9, as soon as estimated figures are available that meet due diligence standards for public disclosure In presentations of pro-forma as early as 31 December 2014 or 2016 at the latest Following the publication of this data, or otherwise, following the development of a firm estimate of the impacts or a change to the estimate, entities are bound by DTR 2.2. to report inside information that may have a material impact on the prices of its listed financial instruments. <strong>This can be at any time.</strong></td>
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<td><strong>General Market pressure</strong></td>
<td><strong>Detailed transition document on impacts and calculations at a business level which may indicate the effects on Group level and divisional profit or loss, capital ratios, leverage, EPS in detail.</strong></td>
<td>Early in 2017 – either after Annual Report or results announcement publication – but before Q1.</td>
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<td>In the year of adoption (2017) Banks may release transition documents (similar to IFRS 10, / IAS 39) to publicise the change to investors. There is no concrete requirement for this.</td>
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<td><strong>Interim reporting</strong></td>
<td><strong>Primary statements in accordance with IFRS 9.</strong></td>
<td>Most institutions report about 30 days after the quarter end – i.e. 30 April 2017 31 July 2017 31 October 2017</td>
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<td>IAS 34 requires interim reports to be prepared in accordance with the policies to be adopted at the year end. Whilst in theory quarterly reports are not covered by IAS 34, in practice IAS 34 is applied and it would be difficult to justify not applying IFRS 9 in the first quarter of the year of adoption.</td>
<td>Institutions may decide not to provide comparatives in anything other than pro-forma format. At present, the ED does not indicate any consequential amendments to IAS 34, therefore no additional disclosures will be required in the second quarter of the year of adoption.</td>
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<td>Requirement</td>
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| **EBA Guidelines on the Financial Reporting Framework (‘FINREP’)**  
Quarterly reporting under IFRS measurement prepared for the regulatory group. At present this is only prepared for the EBA and submitted via the PRA for statistical purposes. The extent to which this will be publicly available by 2017 is unknown. | **Primary statements in accordance with IFRS 9 for the regulatory scope of the consolidation.**  
Disclosures to the extent required by FINREP on Impairment allowance by sector (table 6)  
Financial assets subject to impairment past due or impaired (table 7) – detailed by past due status and counterparty type  
Movements in allowances for credit losses and impairment of equity instruments (table 12)  
Note that FINREP is designed on an IFRS 7, Financial Instruments: Disclosure (‘IFRS 7’) basis and is likely to change considerably as a result.  
The most probable outcome is that FINREP will require IFRS 7 amended disclosures on a quarterly basis. | FINREP submission dates – 30 working days after the end of the relevant Quarter end. |
| **Annual reporting cycle 2017**  
Results Announcements  
Annual Report | Full interim and annual financial statements on an IFRS 9 basis including showing the effects in accordance with the transition provisions and the disclosure requirements of IAS 8 and IFRS7. | Q1 2018 |