International Accounting Standards Board
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Japanese Bankers Association

Comments on the International Accounting Standards Board's Request for Information *Post Implementation Review of IFRS 9 Financial Instruments— Impairment*

The Japanese Bankers Association (the "JBA")[1] is pleased to provide comments on the Request for Information *Post Implementation Review of IFRS 9 Financial Instruments — Impairment* (the "Request for Information") published by the International Accounting Standards Board (the "IASB").

The JBA appreciates the work of the IASB and would like to express our views based on comments received from member banks on several of the questions raised in the Request for Information.

Answers to specific questions

Question 1—Impairment
Do the impairment requirements in IFRS 9 result in: (a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not? (b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?

Response to (a)

We are of the view that the expected credit loss model in IFRS 9 allows for the timely recognition of credit losses compared to the 'incurred loss' model in IAS 39. As described in Spotlight 1 of the Request for Information, we consider that the expected credit loss model could be assessed as having resulted in the appropriate recognition of loss allowances during the COVID-19 pandemic.

Response to (b)

As long as the general approach, which allows an entity to recognise 12-month expected credit losses

[1] The Japanese Bankers Association is an organization that represents the banking industry in Japan. Its members are banks and bank holding companies operating in Japan.

(stage 1) or lifetime expected credit losses (stage 2 and stage 3) according to increases in credit risk since initial recognition, operates on a principle basis, as is currently the case, we believe that it provides flexibility for the entity and useful information for users of financial statements.

In the Request for Information, it is noted that some users of financial statements raised issues relating to the diversity in financial statements and comparability between entities. However, we are concerned that if accounting standards specify details without leaving it to practical discretion, the ongoing operational costs will be excessive compared to the possible additional benefits. Given that IFRS is a set of principles-based accounting standards to begin with, and that the current IFRS 9 is a standard that enables entities to recognise credit losses in a timely manner from a broad perspective and ensures a certain degree of comparability, we believe that there is no need to add more detailed requirements and the IASB should maintain the current requirements.

Question 2—The general approach to recognising expected credit losses
(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

We are not aware of any fundamental questions or fatal flaws regarding the general approach. The approach of classifying financial assets into stages 1 to 3 according to increases in credit risk and recognising credit losses is appropriate in the sense that it ensures recognising more credit losses for financial assets with deteriorating credit risk and presenting the balance of deteriorated financial assets in a way that provides clear information to users of financial statements.

Question 4—Measuring expected credit losses
(b) Can the measurement requirements be applied consistently? Why or why not? **Spotlight 4.2—Post-model adjustments or management overlays** the IASB would like to understand from stakeholders the circumstances in which the use of post-model adjustments or management overlays significantly reduces the usefulness of information provided to users of financial statements and how that relates to the requirements in IFRS 9 or IFRS 7. **Spotlight 4.3—Off-balance-sheet exposures** The IASB is asking stakeholders about the fact patterns in which diversity in applying the requirements is observed, the effects of diversity in financial statements and the pervasiveness of those fact patterns.

Response regarding Spotlight 4.2.

In estimating expected credit losses, management overlays are necessary because there are limitations in reflecting forward-looking information based on macro-statistical models alone under conditions of increased uncertainty in the economic environment, such as the outbreak of the COVID-19 pandemic.

In this regard, Spotlight 4.2 of the Request for Information refers to the concerns of some stakeholders (e.g. users of financial statements and regulators) about the increased use of management overlays or post-model adjustments, as they reduce "the comparability of expected credit losses between entities" but companies are disclosing information, including voluntary disclosures, when using management overlays, etc.

The introduction of detailed rules for the sole purpose of improving comparability, simply because of diversity in practices of the future forecasting methods, may negate the good practices that have been established in each jurisdiction. As stated in IFRS 9 BC5.242, adopting "a principle-based approach would help reduce complexity and mitigate operational challenges by allowing an entity to use techniques that work best in its specific circumstances". For example, Japanese banks have practices of using forward-looking methods to identify and recognise provisions for the risk of fluctuations in future cash flows especially for sectors where the impact of economic fluctuations on future cash flows is significant. These practices could be considered as an example of a management overlay. From the perspective of not preventing the application of standards that takes into account the practices of each jurisdiction, we recommend that the IASB maintain its current principles-based approach. This would result in the appropriate recognition of expected credit losses depending on the circumstances, at the discretion of the entity.

Response regarding Spotlight 4.3.

There are certain types of guarantee contracts (e.g. performance bonds) for which it is difficult to determine the accounting treatment as to whether they fall within the definition of financial guarantee contracts under IFRS 9 or insurance contracts under IFRS 17. On the one hand, financial guarantees provided by the banking sector and financial guarantees provided by the insurance sector (which are similar to insurance contracts) are clearly differentiated according to regulations in some jurisdictions. Under the practices in Japan, risk management is carried out based on this distinction and figures submitted to financial regulators are calculated in the same classification as risk management. Therefore, the application of IFRS 9 to guarantees subject to banking sector regulations and IFRS 17 to guarantees subject to insurance sector regulations would enable an accounting treatment that is also consistent with risk management. In other words, we believe that leaving room for standards to be applicable based on the regulations of each jurisdiction will enable the financial statements to appropriately reflect the actual situation of the entities.

For this reason, we recommend that the IASB establish, for example, a new provision in IFRS 9 (or IFRS 17) to allow guarantee contracts to be regarded as financial guarantee contracts in appropriate cases, even if they also meet the definition of insurance contracts in IFRS 17, in addition to the current provisions (IFRS 9, paragraph 2.1(e)(iii)) that allow financial guarantee contracts to be regarded as insurance contracts under certain conditions. This would allow for an accounting treatment consistent with jurisdictional regulations.

Question 9—Credit risk disclosures
(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions? (b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected? If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Response to (a)

There is no specific problem with the disclosure requirements of the current IFRS 7 as it works as a framework that sets minimum disclosure requirements and allows entities to determine the granularity of disclosure according to its own circumstances in light of its credit risk disclosure objectives.

Response to (b)

As some users of financial statements have argued, the granularity of disclosure may vary between companies for some requirements as the decision on whether to disclose at a finer granularity than the minimum disclosure requirements set out in accounting standards is based on the requirements or guidance from supervisors and other authorities or the views of external auditors. However, it is sufficient to comply with the requirements or guidance from supervisors and other authorities, taking into account the circumstances of each industry sector, and therefore there is no need to add them to the disclosure requirements to IFRS 7.

(End)