

20 December 2021

## ESMA Publishes Report on Expected Credit Loss Disclosures of Banks

### 1.0 Background

The Authority would like to draw your attention to [ESMA's Report](#) (hereinafter referred to as the "Report"), published on 15 December 2021, on the application of the IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* requirements regarding banks' expected credit losses ("ECL").

The Report is based on a desktop review of the 2020 financial statements of a sample of 44 European banks from 21 jurisdictions. Whilst the Report notes that the respective IFRSs were generally well covered by the banks reviewed, ESMA has identified room for improvement in the level of compliance, comparability and transparency in the application of the relevant IFRS requirements.

### 2.0 Overview of the Report

The Report provides the issuers, their auditors and audit committees with recommendations on how to improve the application of the relevant requirements when preparing and auditing the financial statements.

ESMA's recommendations to issuers primarily relate to the following areas:

- general aspects of the ECL-disclosures;
- assessment of significant increase in credit risk;
- forward-looking information;
- explanation of changes in loss allowances;
- transparency of disclosures on credit risk exposures; and
- ECL sensitivity disclosures.

The Report provides an overview of the banks' compliance with the existing ECL-related requirements of IFRS 7 and IFRS 9, with the primary focus on relevance and comparability of disclosures.

### 3.0 Next Steps

ESMA expects the relevant stakeholders; including issuers, their auditors and audit committees; to consider the findings of the Report when preparing and auditing financial

statements. Enforcers are expected to take the appropriate enforcement action accordingly.

Moreover, ESMA intends to utilise the results of the Report in its response to the International Accounting Standards Board's request for information related to the Post-implementation Review of impairment requirements of IFRS 9, which is expected in 2022.

## **Contacts**

Should you have any queries relating to the above, kindly contact the Authority on [transparency@mfsa.mt](mailto:transparency@mfsa.mt).