
**Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting
(ISAR)**

**UNCTAD-ISAR – IAAER Workshop
Impact of COVID 19 on company financial and sustainability
reporting**

Monday, 8 November 2021

Presented by

Sebastian Hoffmann
IAAER Vice President, Membership
Professor HHL, Leipzig, Germany

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Business School

A reflection on credit loss accounting in European banks under Covid-19

A discussion prepared for the UNCTAD-ISAR – IAAER Workshop 8 November 2021

Sebastian Hoffmann, HHL Leipzig Graduate School of Management & University of Edinburgh

Based on research work undertaken together with Kefei Wu, University of Manchester

Topic: Expected Credit Loss (ECL) Accounting

ECL During COVID-19

Markets

ECB Gives Banks Further Virus Relief With Break on Bad Loans

By Alexander Weber, Nicholas Comfort, and John Ainger

20 March 2020, 15:30 GMT Updated on 20 March 2020, 16:17 GMT

- ▶ Banks will benefit from state guarantees, payment holidays
- ▶ ECB recommends that banks avoid excessive loss provisions

Opinion **Inside Business**

Bank accounting an early casualty of Covid-19

Rules designed to resolve the tests of the last financial crisis have already flunked this one

BoE warns bank loan reserves risk choking business funding

New accounting rules pose threat to banks amid coronavirus crisis

A Dialogic Mobilisation of The Public Interest

— A Coordinated Regulatory Push



Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending

Supporting businesses and households amid COVID-19

- Coordinated regulatory guidance by the ECB, EBA, and PRA, specifically on the implementation and operation of ECL within banks during the COVID-19 crisis.
- Result: a coordinated re-interpretation of IFRS 9's ECL framework in order to
 - Provide banks with **more accounting flexibility**
 - **Prevent** the use of public support measures from becoming **a loss signal** in terms of expected credit loss estimation
 - **Mitigate pro-cyclicality** and the impact of COVID-19 on financial stability, crucially through long-term macroeconomic forecasting

A Dialogic Mobilisation of The Public Interest

— Stirring Traditional Responsibilities For Accounting & Control

ECL as the amalgam of governmental and managerial interference

Government Measures

- Payment holidays delay the materialisation of defaults
- Government guarantees transfer default risks from commercial banks to the state
- Regulatory guidance for banks, to prevent a credit and liquidity crunch of the economy

Management Policies

- Prudent lending
- Good-quality loan books
- Proactive risk management
- Conservative estimates
- Management overlays



ECL and Prudential Regulation

1

Adding to existing studies on de facto prudential biases in the practices of accounting due to supervisory intervention (e.g. García Osma et al. (2019), Novotny-Farkas (2016), and Giner & Mora (2019))

2

**The case of IFRS 9 ECL:
Regulators and governments become “earnings managers” of banks.**

3

The usefulness, uses, utilities and limitations of financial reporting in highly regulated settings???