

## Prudential Application of IFRS 9: (Un)Fair Reporting in COVID-19 Crisis for Banks Worldwide?!

Aziz el Barnoussi, *Nyenrode Business Universiteit*

Bryan Howieson , *University of Adelaide*

Ferdy van Beest , *Nyenrode Business Universiteit*

*IFRS 9 and ASC 326 were developed after the 2008–2009 financial crisis, and both accounting standards include an expected loss model as a means of providing for credit losses. As a result of the COVID-19 worldwide pandemic, however, banks face considerable uncertainty about the potential scale of the bad debts for which they will need to provide. Banks need to reassess their loan assets, by updating their risk models with expectations about potential default rates and future macro-economic and financial developments. However, we see several interventions worldwide. The European Securities and Markets Authority addresses a position paper on the prudential application of IFRS 9. The Coronavirus Aid, Relief, and Economic Security Act in the US has given banks an optional deferral of implementation of the CECL model until 31 December 2020. This paper addresses the challenges banks face when applying the expected losses model during the current crisis. More importantly, it discusses the impact of supervisor and regulators' intervention on future financial reporting comparability, transparency and whether there is a level playing field.*

Late in 2019 a new form of coronavirus named COVID-19 appeared in the city of Wuhan in the Hubei province of China. The disease proved to be highly infectious and spread rapidly around the globe to such an extent that a pandemic was declared by the World Health Organization (WHO) on 11 March 2020 (WHO 2020a). The human cost of the pandemic has been catastrophic<sup>1</sup> and attempts by governments to contain the spread of the virus have been so draconian that global economic activity nearly ground to a halt. Many industries were made unviable as a result of these containment measures and this resulted in considerable loss of employment and business closures. Among other impacts, the flow-on effects include the inability of individuals and organisations to adequately service their liabilities and pay their debts due to economic restrictions. The potential negative consequences for the stability of the world's financial sector are unprecedented, rivalling prior crises such as the 2008 Global Financial Crisis (GFC) and even the Great Depression that began in 1929. For example, in Australia alone, it was recently estimated that the Big 4 Australian banks may face bad debts of 14 billion dollars (Eyers 2020).

At the time of writing, there were no clear signals about when the COVID-19 pandemic would subside resulting in substantial uncertainty regarding the economic consequences of the crisis. As COVID-19 continues to spread around the globe, countries are

facing general economic downturn, rising unemployment levels and a decline in consumer trust. Different governments have undertaken some major interventions in their national economies: support for individuals, including better access to social benefits, such as income support and unemployment benefits; support for businesses and other government agencies, including grants and loans; and supporting financial systems, including monetary policy instruments such as interest rate cuts and the purchase of government bonds. As these challenging circumstances could endure over a long period and have long-term negative impacts on entities' financial results, entities need to reassess their loan assets. This may result in higher loan loss reserves, impacting capital reserves, resulting in worsened solvency ratios and potential illiquidity of worldwide markets.

Accounting for loan loss provisioning worldwide is covered in a subset of accounting standards. It is not our goal to comprehensively address all related accounting issues, but we explore similarities and differences in standards and whether their application will

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**Correspondence:** Center for Corporate Reporting, Finance & Tax, Nyenrode Business Universiteit Straatweg 25, 3621 BG Breukelen, The Netherlands. Tel: +31 (0)6 55190236; email: f.vbeest@nyenrode.nl

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result in a level playing field across banks worldwide. International Financial Reporting Standard (IFRS) 9 and the United States (US) Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 326 both introduced expected credit loss (ECL) models, which are based on forward-looking information. Accounting for loan loss provisions, or ECL, is especially challenging for banks as it is developed to integrate approximations of credit events, and consequent cash deficit, and is based on a model that uses statistical weighted probabilities of risks. During 2018 entities published for the first time their annual reports based on IFRS 9 figures. Consequently, there has been little opportunity to examine the impact of ECL accounting. Given the high uncertainty associated with the scale of this crisis, banks will find it even more challenging to use the probability estimations that are embedded in the ECL model.

In addition to potential differences between accounting by banks worldwide, we see several interventions influencing the application of current standards. Banking supervisory bodies, accounting standards setters and other regulators around the world have rushed to develop guidance for reporting entities regarding the financial reporting challenges and implications of COVID-19. For instance, the Basel Committee on Banking Supervision (BCBS), the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the Bank of England (BoE) and the International Accounting Standards Board (IASB) have all recently published documents in which they express a (more or less) shared view regarding the application of IFRS 9; that is, that banks should be very careful in assessing the effects of COVID-19 on loans and valuation (see BCBS 2020; BoE 2020; EBA 2020; ESMA 2020; IFRS Foundation 2020). For the US we also find regulatory interventions.

Opponents of the US approach, current expected credit losses (CECL), sought to criticise the method using the *Coronavirus Aid, Relief, and Economic Security Act* (also known as the CARES Act) H.R.748 in March 2020. In Australia, the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) jointly issued in March 2020 a frequently asked questions (FAQ) document addressing potential financial reporting and auditing issues associated with the COVID-19 crisis (AASB and AUASB 2020). With regard to financial reporting, the FAQ identifies several topics of concern including asset impairment, assessment of asset fair values, onerous contracts, changes in expected credit losses, reassessment of going concern and the determination of decision useful disclosures to support the recognition and measurement choices made by reporting entities.<sup>2</sup> Consequently, we see the real risk of different applications of credit loss accounting across

jurisdictions, not because of changes in the standards, but due to the intervention of prudential banking regulators in the application and interpretation of those standards.

In this paper we primarily explore the impact of the COVID-19 crisis on the accounting practices associated with the ECL approach as promulgated by the International Accounting Standards Board (IASB) and the FASB. Accounting for financial instruments is a topic that has a long history of controversy and which was also at the centre of the previous GFC (see, e.g., Howieson 2011). Within the reporting issues related to the COVID-19 crisis, accounting standards setters (e.g., AASB and AUASB 2020; IFRS Foundation 2020) have publicly recognised that the COVID-19 pandemic has the most direct implications for the issue of accounting for, and reporting upon, ECL. This is especially true for financial reporting by banks and other financial institutions that form the core of the world's financial system which have, as we discuss later, strenuously sought to delay or remove the ECL accounting requirements specified in IFRS 9 (and its US equivalent).

The predecessor standard to IFRS 9 was IAS 39 *Financial Instruments: Recognition and Measurement*. The 2008 GFC revealed significant shortcomings in IAS 39 and the urgency created by the financial crisis, and the demands of politicians at that time resulted in *ad hoc* amendments to IAS 39 and its US equivalent, FAS 157 *Fair Value Measurements*, and as a consequence this generated financial reporting inconsistencies for financial instruments across jurisdictions (Howieson 2011). As IFRS 9 requires the exercise of considerable judgement on the part of financial statement preparers, there remains the potential for significant diversity in how its provisions regarding ECL are interpreted and applied in practice. As these judgements can be influenced by their economic consequences (Zeff 1978), we document in this paper how conflicts of objectives between prudential and accounting regulators and the self-interest of financial institutions has again threatened the level playing field for financial reporting across banks worldwide.

The remainder of this paper is as follows. First, we start with some background literature from the previous crisis identifying some of the issues that are likely to repeat themselves when a crisis like COVID-19 occurs. Then we explain the relevant ECL provisions of IFRS 9 and identify which assumptions are made when applying the ECL model. This application is necessary to understand the intentions of the standards, but also to understand what it means if the operation of the standards is subject to influence from prudential banking regulators. We then discuss the responses of regulators and standard setters worldwide and finish with some concluding remarks and suggestions for future research.

## Literature and Previous Crisis

As explained before, IFRS 9 was introduced as a response to the limitations of IAS 39, which embraced more fair value measurements within the area of financial instruments. However, Laux and Leuz (2009) observe that the application of fair value measurement can result in legitimate concerns in times of financial crisis. Additionally, and although it is difficult to fault the fair value standards *per se*, Laux and Leuz (2009) raise implementation issues as a potential concern, especially with respect to increased risks of litigation. Furthermore, McSweeney (2009) questions the effects of the financial assets market failure (and denial) in its contribution to the previous crisis, that is, underestimating the underlying bubble. The potential denial of the significance of the negative impacts of the current COVID-19 crisis by prudential banking regulators is one of our major concerns. McSweeney (2009) concludes that despite the intention of mitigating the effects of crises, fair value applications might even contribute to extending crisis effects. One of the potential risks is that fair value accounting results in more pro-cyclical effects.

This concern regarding the pro-cyclical effect of fair value is confirmed by Abad and Suárez (2017) and by Krüger et al. (2018). Additionally, McSweeney questions the effectiveness of interventions. The European Securities and Markets Authority (ESMA) and the Bank of England (BoE) (see BCBS 2020; EBA 2020; ESMA 2020; BoE 2020) state (EBA 2020: 1) that ‘the flexibility embedded in the accounting and regulatory frameworks is to be fully used by institutions to help maintain soundness through the crisis and provide critical functions to the economy’. ESMA’s intervention that accounting standards should be applied from a more prudential perspective might help the entire economy, but it might also result in more failures by not providing objective information about expected losses as required in IFRS 9. IFRS 9 was not tested in a market failure environment, so we have no clarity on this subject yet. Moreover, McSweeney (2009) highlights some socioeconomic and political effects on the real economy, which might be occurring in this crisis as well. He argues, for instance, that weakly regulated financial markets are unbalanced and encourage a lack of balance. After the GFC, the banking sector became more highly regulated.

However, intervening within this system is therefore highly risky; supervisory interventions might deteriorate the situation even more, resulting in adverse consequences in the long run. Finally, Vyas (2011) shows that the recognition of loan loss write-downs are less timely than the timing of devaluations as indicated by credit indices. At the time of writing, the impacts of the COVID-19 pandemic are still unfolding and so there is substantial uncertainty regarding the economic consequences of

the crisis. Although some research is starting to emerge comparing the incurred loss model and ECL (e.g., Lee et al. 2020) we are unaware of any empirical evidence yet as to whether or not banks may underestimate the effects of COVID-19. However, one of our suggestions for future research, and based on the application of IFRS 9, is that there should be an investigation into whether the impairment losses are applied in a more timely manner due to the ECL model in IFRS 9 than they would have been with the previous ‘incurred loss model’ in IAS 39. In addition, research could investigate whether the ECL model is providing unbiased estimates of the fair value of financial assets.

IFRS 9 and ASC 326 were a response to a request from the G20 countries for reform in the aftermath of the GFC. Within the context of credit losses, the incurred loss model was criticised for a number of reasons, the most important of which focused on the fact that it was considered too historically oriented and thus could have contributed towards the delay in recognising losses during the financial crisis. For example, the IASB’s incurred loss model in IAS 39 was complex because multiple impairment approaches were allowed. As part of their reforms, the IASB and FASB decided to develop a new model (the so-called ‘expected credit loss model’ (ECL) in the case of IFRS 9 and the ‘current expected credit loss’ model (CECL) in the US) that provides more forward-looking information on loan losses than the incurred loss model. Both approaches, ECL and CECL, seek to provide transparent and timely information on changes in credit risk. The IASB issued IFRS 9 in July 2014 while the FASB issued ASC 326 in June 2016. IFRS 9 was adopted in the EU in November 2016 and entered into force on 1 January 2018. ASC 326 entered into force on 15 December 2019 for SEC filers.

The ECL models (both ECL and CECL) should absorb market volatility much better than the incurred loss model and be able to deal more proactively with future changes. Uncertainties caused by, for example, Brexit, the EU migrant crisis or the oil crisis should already be included in the ECL models used by banks. However, the COVID-19 pandemic is of an entirely different magnitude in the breadth of its consequences and the enormous level of associated uncertainties. Consequently, it represents the first real stress test (Angeloni 2020) of whether this newly developed loan loss approach is indeed the answer to the financial reporting issues experienced during the GFC and whether, in particular, the provisions formed by financial institutions are sufficient to deal with the shock movement that is now going through the world’s capital markets. An important aspect of this stress test is the degree to which the requirements of IFRS 9’s ECL model are interpreted and applied consistently across reporting entities and jurisdictions. We question whether the intervention by prudential banking regulators will result in emerging

differences in loan loss provisioning that will reduce the potential for consistent quality financial reporting across the world's banks and other financial institutions. Before doing so, however, we first need to describe the application of the ECL models.

### IFRS 9's expected credit loss (ECL) model

IFRS 9 provides accounting guidance on how companies should value financial instruments. Under IFRS 9 all financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs [IFRS 9: 5.1.1]. Subsequent measurement falls into one of three categories [IFRS 9: 5.2.1]:

1. amortised cost;
2. fair value through other comprehensive income (FVTOCI); or
3. fair value through profit or loss (FVTPL).

For all financial assets not measured at FVTPL, IFRS 9 introduced a new impairment model based on expected credit losses (rather than incurred losses as per IAS 39), which has a wider scope of application than IAS 39.

In contrast to IAS 39, immediately upon initial recognition of the financial asset on the company's balance sheet, a provision for expected credit losses (impairment) is formed. This applies to all debt instruments held as financial assets that are valued at amortised cost or at FVOCI, off-balance sheet commitments and financial guarantees (unless measured at FVTPL), as well as lease receivables and contract assets under IFRS 15 [IFRS 9: 5.5.1].

After initial recognition entities are obliged to reassess at reporting date whether there has been a significant increase in credit risk (SICR) on the financial asset, whether assessed on an individual or collective basis, considering all reasonable and supportable information, including that which is forward-looking [IFRS 9: 5.5.4].

IFRS 9 has a general approach for measuring impairment losses. Under this approach, entities are required to apportion the ECL into either:

- 12-month ECLs – where there has not been a SICR, that portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date [IFRS 9: 5.5.5];
- life-time ECLs – where there has been a SICR, this is defined as the expected credit losses arising from all possible default events over the entire expected maturity of the financial instrument [IFRS 9: 5.5.4].

### Significant increases in credit risk

As noted above, at each reporting date, entities are required to assess whether the credit risk on a financial instrument has increased significantly (SICR) since initial recognition. Under IFRS 9 entities might need to transfer financial assets from the 12-month ECL to the life-time ECL, so the new impairment method has three levels or stages [IFRS 9: B5.5.26]:

- Stage 1, with regard to financial assets (not measured at fair value through profit and loss) entities need to provide at least for the 12-month ECL;
- a significant increase in the probability of a default (SICR) occurring since initial recognition leads to a Stage 2 recognition of a provision (life-time ECL), which might materially increase the amount of provisioning;
- if the financial assets' credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost, this is known as Stage 3. Lifetime ECLs are recognised as in Stage 2.

When assessing whether there is SICR, entities use the change in the risk of a default occurring over the *expected life* of the financial instrument instead of the change in the amount of expected credit losses. Entities may use various approaches to assess whether credit risk has increased significantly. However, there are some specific requirements included in the standard that can be considered very relevant for the current COVID-19 crisis.

### Exception on SICR

'An entity may assume that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have a low credit risk at the reporting date' [IFRS 9: 5.5.10]. The standard considers credit risk to be 'low' if there is a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The standard suggests that an 'investment grade' rating might be an indicator for a low credit risk [IFRS9: B5.5.23].

### Rebuttable presumptions SICR

Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has

increased significantly since initial recognition when contractual payments are more than 30 days past due [IFRS 9: B5.5.37]. The COVID-19 pandemic is rapidly changing the economic environment, so banks will need to reassess whether it is still reasonable to consider credit risk to be low. Normally they can rely on their credit ratings, so they need to update the ratings to meet the new economic environment.

When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (e.g., financial covenants) when appropriate [IFRS 9: B5.5.37].

There is a second rebuttable presumption. This one is related to the definition of default. Default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate [IFRS 9: B5.5.37].

### *Measurement of ECL*

IFRS 9, paragraph 5.5.18 sets out the following requirement:

When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

IFRS 9 is purposely designed to be forward-looking, reflecting expectations of future credit events (and resulting cash short falls) assessed at the reporting date. The standard contains a non-exhaustive list of information that may be relevant in assessing changes in credit risk, including an actual or expected significant adverse change in the economic environment and existing or forecast adverse changes in business, financial or economic conditions [IFRS 9: B5.5.17]. Entities must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, in order to approximate the result of recognising lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level.

An entity calculates the allowance for credit losses (loan loss provision) by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The LLP is the sum of these probability-weighted

outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions and forecasts of future economic conditions [IFRS 9: B5.5.41]. It is common to use regulatory capital models for this purpose. In summary, banks need to incorporate the following input into their ECL model:

- Probability of default (PD)
- Exposure at default (EAD)
- Loss given default (LGD)

### **Differences between IFRS 9 and ASC 326**

The IASB and FASB initially worked together to respond to the request of the G20 to develop new standards that are more future-oriented and that created a consistent approach to loan loss provisioning. While the intention was to converge both standards, eventually both standard setters decided not to. In the US, guidance on credit loss accounting appeared in Accounting Standards Update No. 2016–13, which was codified into ASC 326. Although the scope of the standards is similar, small differences occur. The main difference concerns the fact that IFRS 9 uses a three-stage approach. Under IFRS 9, debt instruments, excluding purchased or originated credit impaired financial instruments, move through three stages as credit quality changes.

In contrast, the FASB's CECL model requires entities to recognise lifetime expected credit losses for all assets, not just those that have had a significant increase in credit risk since initial recognition. Stated differently, CECL follows a single credit-loss measurement approach, whereas IFRS 9 follows a dual credit-loss measurement approach in which expected credit losses are measured in stages to reflect deterioration over a period of time. An additional difference between both credit impairment models is the fact that credit deterioration affects the amount of loss allowance an entity would recognise under IFRS 9 (Deloitte 2016).

Under both standards, financial assets (debt instruments) are transferred between stages as credit quality changes; this means that entities need to assess at reporting date whether there has been a significant deterioration in credit risk since origination. In principle, measurement of expected credit losses is conceptually the same under the FASB's CECL model and the Stage 2 and Stage 3 debt instruments under IFRS 9 (Deloitte 2016). We described earlier in this paper that measurement of the ECL provision under IFRS 9 is based on forward information and probability-weighted amounts that are determined by evaluating the range of possible scenarios.

The CECL model does not require multiple scenarios but accepts the use of a single forecast and does

not require a probability-weighted measurement of expected credit losses. Therefore, the CECL approach also requires the measurement of low-risk assets, contrary to IFRS 9.

Finally, both IFRS 9 and ASC 326 provide specific guidance for instruments that have already suffered credit deterioration in the past. Under ASC 326, these assets are referred to as purchased credit deteriorated (PCD) assets whereas under IFRS 9 these are referred to as purchased or originated credit-impaired (POCI) assets. IFRS 9 then defines POCI as ‘purchased or originated financial asset(s) that are credit-impaired on initial recognition’ [IFRS 9: Appendix A] and indicates that ‘a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred’ [IFRS 9: Appendix A]. ASC 326 defines PCD as ‘acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination’ [ASC 326: Glossary]. Under IFRS 9, no allowance is recorded when a POCI asset is initially recognised whereas under ASC 326, an initial allowance is required to be estimated and recorded and it is added to the purchase price rather than being reported as a credit loss expense.<sup>3</sup>

### Application of ECL model during the COVID-19 crisis

Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. The loan loss provision for financial assets is based on assumptions about the risk of default and expected loss rates. The use of different assumptions could produce significantly different estimates of ECL and the inclusion of forward-looking macroeconomic scenarios requires judgement.

Many banks base their scenario approach on judgements. Banks could leverage on approaches already adopted by some big global banks like Barclays, HSBC and SCB going forward. These approaches include the Consensus Economic Scenario Approach or the Monte Carlo Simulation Approach. These approaches use mainly economic variables such as unemployment rates, GDP growth, house prices, commodity prices and short-term interest rates. These models which are normally very useful, are struggling to incorporate the extreme economic conditions and the levels of government support measures associated with the current COVID-19 pandemic. Consequently, banks need to change their initial risk models in order to avoid misestimating credit risk.

Banks have had to make many judgements in constructing models to comply with the IFRS 9 impairment requirements. Differing approaches for certain key judgements may result in IFRS 9 impairment provisions being treated inconsistently across banks and between jurisdictions, particularly during periods of stress. Governments and banks in many jurisdictions have introduced extraordinary measures to alleviate the financial and economic impact of COVID-19. The relief measures include a range of different payment moratoriums and government guarantees (ESMA 202; IPSASB 2020). Given the fact that the COVID-19 crisis is still quite new and the impact on future economic conditions is very hard to predict, banks are finding it very difficult to identify the ‘reasonable and supportable information’ [IFRS 9: 5.5.4] that they can use in their scenario models. Consequently, the approach adopted by any particular entity varies depending on its specific situation and the methodology it adopts in assessing ECL. Banks are likely to incorporate estimates of forward-looking macro-economic factors into multiple scenarios about the future economy. The extent to which a subsequent spread of the COVID-19 virus would be factored into these possible scenarios, and the associated probabilities of such scenarios, will vary depending on characteristics of the financial asset, such as location and industry.

### Response of regulators, prudential banking supervisors and governments to the application of IFRS 9 and the COVID-19 crisis

Bank regulators have reacted to the COVID-19 crisis in different ways. In summary, we have seen two types of interference, sometimes combined by regulators:

- interference in accounting by introducing more flexibility in interpreting and applying the accounting standards; delaying accounting standards; issuance of guidance to facilitate banks with macroeconomic scenarios and information; and
- interference in regulatory accounting; relaxation of capital requirements; extending transition periods.

Even prior to the COVID-19 crisis, prudential banking regulators in several jurisdictions had adopted the approach of smoothing over time or delaying the impact of the adoption of the ECL model on capital adequacy measures. Such a practice eased the large impact of the transition from the incurred loss model to the ECL and assists banks to strengthen their capital position. For example, BCBS (2020) notes that:

Irrespective of when a jurisdiction initially started to apply transitional arrangements, for the 2 year period comprising the years 2020 and 2021, jurisdictions may allow banks to add-back up to 100% of the transitional adjustment amount to CET1.<sup>4</sup> The “add-back”

amount must then be phased-out on a straight line basis over the subsequent 3 years.

The Prudential Regulatory Authority of the BoE (2020) reminded UK financial institutions that the transitional arrangements in place in the UK meant that ‘the regulatory capital impact of ECL is being phased in over time and during 2020, firms can add back CET1 equivalent to up to 70% of “new” provisions due to IFRS 9’. In the US, Marlin (2020) reports that the initial adoption of the CECL model for reporting periods ending 31 December 2020 resulted in the largest US banks recording approximately a 30% increase in their loan loss provisions. The potential for a negative impact on capital adequacy measures had already been anticipated by US banks who lobbied the Office of the Comptroller of the Currency (Treasury), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation with various proposals to smooth out these negative impacts. As a result, these US agencies responded by issuing a rule that allowed any bank that incurred reduced retained earnings as a result of the initial adoption of the CECL model the option of choosing to spread that regulatory capital impact over a three-year period (Office of Comptroller of the Currency, Treasury et al. 2019).

Since the rise of the COVID-19 crisis and the consequential government relief initiatives, regulators and prudential banking supervisors have provided further guidance, *inter alia*, about the estimation of expected losses of financial assets. The crisis has also created an opportunity for those who are critical of the ECL (or of the US CECL) model to lobby for a delay in its application or even, ultimately, the repeal of the ECL requirements. We consider these responses in the context, firstly, of the EU and the UK and, secondly, in the US.

### ***The EU and UK responses to COVID-19 and ECL provisions***

At the time of writing, the principal guidance provided to EU and UK financial institutions has been from the BCBS, the EBA, the ESMA and the BoE (see BCBS 2020; EBA 2020; ESMA 2020; BoE 2020). As prudential banking supervisors, it is not surprising that the overwhelming objective of these guidance documents is to ensure the stability of the global financial sector. Banks are advised that when adopting the ECL and SICR requirements of IFRS 9, they should not be sending signals that would suggest market shocks. For example, in its statement of guidance issued on 25 March (and in coordination with a similar statement by the ESMA), the EBA (2020: 1) perceives the ‘principles-based’ nature of IFRS 9 as requiring the exercise of judgement and the EBA instructs that ‘the flexibility embedded in the accounting and regulatory frameworks is to be fully used by institu-

tions to help maintain soundness through the crisis and provide critical functions to the economy’. In the context of assessing SICR, the EBA (2020: 3) goes on to suggest that banks should exercise their judgement ‘to mitigate any potential cliff effect of transfers between stages and [which] would help to avoid exaggerating the effects of the shock’. In a similar fashion, in a letter to UK CEOs written by Sam Woods, Deputy Governor and CEO of the Prudential Regulation Authority (BoE 2020: 1), the CEOs are warned ‘that a significant overstatement of ECL could prompt behaviour that leads to unnecessary tightening in credit conditions’.

Unlike the situation at the time of the GFC, it is the principles-based nature of IFRS 9 that is being leveraged by prudential banking supervisors and banks with the objective of at least maintaining the image, if not the substance, of stability in the financial system. Angeloni (2020, emphasis in original), a former member of the supervisory board of the ECB, provides a convenient summary of the mantra currently promoted by prudential banking regulators with regard to ECL accounting:

this time the threat comes *from outside* the banking sector, and that the latter needs to be defended from the severity of the shock. [The banking supervisory bodies] recognise that banks can this time be “part of the solution” if they help smoothen the impact of the shock on the real economy. For this to happen, prudential regulation and supervision need to become considerably more permissive, at least for a temporary phase before private investment and consumption resume spontaneously.

Angeloni (2020) acknowledges the potential for moral hazard in this ‘regulation lite’ approach but believes the current crisis makes it worth the risk.

The ‘permissive’ interpretation of IFRS 9 promoted by the EBA, the ESMA and the BoE is predicated on some assumptions that may or may not be realised. Perhaps the most significant of these assumptions is that the economic impacts of the COVID-19 crisis are temporary and short-term. This assumption is founded on the mitigation efforts implemented by governments and financial institutions to counter the negative economic impacts of the crisis. For example, the BoE (2020: 5) states:

Clearly markets have been trending significantly downwards and the steps being taken to contain the virus (including social distancing and business closures) could, if judged in isolation, have negative implications for borrowers’ ability to pay. Those factors should, however, not be judged in isolation because governments and central banks globally have announced unprecedented interventions to minimise the impact on individuals and corporates.

Similarly, the BCBS (2020: 2) advises:

Where banks are able to develop forecasts based on reasonable and supportable information, the Committee

expects ECL estimates to reflect the mitigating effect of the significant economic support and payment relief measures put in place by public authorities and the banking sector. While estimating ECL, banks should not apply the standard mechanically and should use the flexibility inherent in IFRS 9, for example to give due weight to long-term economic trends.

As a consequence of this assumption that the effects are temporary, the EU and UK prudential banking regulators have promoted guidance that essentially suspends the requirements and tests of IFRS 9. For example, in the context of assessing SICR, the ESMA (2020: 3, emphasis added) states:

that the measures taken in the context of the COVID-19 outbreak which permit, require or encourage suspension or delays in payments, *should not be regarded as automatically having a one-to-one impact on the assessment of whether loans have suffered a SICR*. Therefore, a moratorium under these circumstances *should not in itself be considered as an automatic trigger of SICR*.

This assumption that things will get better sooner rather than later, combined with the current extreme levels of uncertainty which allegedly make it impossible to generate reasonable and supportable short-term economic forecasts (ESMA 2020), have led the EU and UK prudential banking regulators to recommend that, *ce-teris paribus*, banks should 'give a greater weight to long-term stable outlook as evidenced by past experience and take into account the relief measures granted by public authorities – such as payment moratoria (ESMA 2020: 4; also see BCBS 2020; BoE 2020). However, the prudential banking regulators' own observation that 'the scarcity of available and reliable information in the current context, [means] issuers will face problems in generating reasonable and supportable short-term economic forecast' (ESMA 2020: 4) questions the wisdom of their guidance about accounting for ECL and SICR, at the least for reporting periods during 2020, if not longer. More significantly, at the time that the prudential banking regulators issued their guidance, and even at the time of writing this paper, no one was in a position to 'know' when the medical impact of COVID-19 would end, let alone possess knowledge about whether the economic impacts would be short-term or long-term, nor their ultimate quantum.

The available evidence suggests that economic conditions are unlikely to substantially improve in the short term. For example, in its 14 April World Economic Outlook press briefing, the International Monetary Fund (IMF) reported that it had downgraded global growth for 2020 by 6.3 percentage points with the result that 'the great lockdown [is] the worst recession since the Great Depression, and far worse than the Global Financial Crisis' (IMF 2020a). Based on the assumption that the pandemic improves in the second half of 2020,

the IMF's April 2020 World Economic Outlook report shows 2020 predicted changes in real GDP for the US, Euro Area and Other Advanced Economies as –5.9, –7.5 and –4.6 respectively with only signs of partial positive GDP growth in 2021 (IMF 2020b). In the light of current knowledge, the prudential banking regulators' guidance seems more akin to the alleged behaviour of the ostrich which ignores the danger around it by burying its head in the sand! Their rush to adopt a permissive guidance on ECL accounting seems both imprudent and ill-considered.

### ***IOSCO and IASB response***

On 27 March 2020, the IASB issued a short document on COVID-19 and the ECL approach in IFRS 9 (IASB 2020). The document did not contain revised rules but rather sought to reinforce IFRS 9's principles for ECL. The IASB stated that it had been in communication with a number of prudential and securities regulators and it noted the existence of the guidance which those entities had issued. The IASB neither endorsed nor disputed that guidance but simply drew it to the attention of financial statement preparers.

The IASB reminded financial statement preparers of the need to exercise professional judgement and that ECL accounting required the use of assumptions. It noted that these assumptions would need to be reassessed on an ongoing basis as new information came to hand over the period of the pandemic. The IASB document reminded readers that the issue of SICR assessments had to be made from the perspective of the overall expected life of a financial instrument. To this extent, the IASB's guidance is consistent with that provided by the EU and UK regulators discussed previously but although the IASB also stresses the need for 'reasonable and supportable information', it is far less emphatic than the EU/UK regulators in making assumptions about the duration of the crisis.

In a media release dated 3 April 2020 (IOSCO 2020), the International Organization of Securities Commissions (IOSCO) endorsed IFRS 9's requirements as a basis of ensuring high-quality financial information and the protection of investors and capital markets during the COVID-19 crisis. The IOSCO supported the IASB's (2020) guidance and reinforced the need to avoid mechanically applying the ECL requirements of IFRS 9 and that financial statement preparers should be careful about distinguishing temporary from long-term effects when assessing SICR. The importance of complying with the principles in IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements*, were also stressed in the media release to ensure that capital markets are fully informed in a timely manner.

### ***The US banking industry and political responses to COVID-19 and CECL provisions***

As mentioned previously, the US equivalent of ECL is CECL as promulgated in the FASB's Accounting Standards Update No. 2016–13, *Measurement of Credit Losses on Financial Instruments*, as codified in ASC 326. The media has reported that the CECL accounting requirements, *inter alia*, had remained unpopular since their inception with some parties within the US banking sector (Haggerty 2020; White 2020b) who continued to quietly lobby politicians and government agencies. Prior to the rise of the COVID-19 crisis, these lobbying efforts had had some limited success in that they resulted in the transitional provisions to smooth the initial impact of the change to CECL that we described earlier.

However, the sudden panic created by the realisation of the seriousness of the COVID-19 pandemic provided a fresh opportunity for the banking sector to attack the CECL provisions with vigour. Banking industry lobbyists enlisted the aid of politicians from both Democrat and Republican members of Congress. For example, Gregory W. Meeks (Democrat, US House of Representatives) and Blaine Luetkemeyer (Republican, US House of Representatives) wrote to the FASB on 23 March 2020, asking it to 'suspend and further delay implementation' of CECL accounting (Meeks and Luetkemeyer 2020). The vehicle employed by the opponents to CECL accounting to achieve its roll-back or removal was the CARES Act H.R.748, which was ultimately signed into law by President Trump on 27 March 2020. It was proposed that CARES would allow banks the option of not complying with ASC 326. During the deliberations to enact CARES, a battle with the FASB ensued in which the banking lobbyists and their political allies sought to delay or repeal the CECL requirements (White 2020a). The attack against the CECL requirements focused either on the alleged negative impacts of the requirements themselves or took the form of an *ad hominem* attack on the FASB. The latter attacks are not worthy of delaying us long but, for example, include the following remarks from Shay (2020) who was writing on the website *americanbanker.com*:

The Financial Accounting Standards Board is considered by people who actually do business to be ridiculously out of touch. Sadly, FASB has proved this again ... One wonders if the FASB is so socially distanced from the real world that they think they are living on another planet, and are merely clinically curious about the crisis happening to everyone else. In fact, it is the FASB's own actions, or inaction in this case, which will make the crisis worse.

The allegations regarding negative economic consequences of the CECL had the potential to be more substantive. Of particular interest is the observation that

the majority of these arguments that were used against the CECL requirements were identical to those that had been previously used by politicians and banking lobbyists during the GFC when they vehemently opposed fair value accounting in the accounting standards of that time (Howieson 2011). These reprised claims include:

- that the CECL accounting would have 'pro-cyclical' effects exacerbating the reduction in prudential capital measures caused by the COVID-19 pandemic (e.g., Meeks and Luetkemeyer 2020; Shay 2020);
- that these pro-cyclical effects will create a 'full-blown systemic crunch' (Marlin 2020) and so reduce the ability of banks to lend to businesses and individuals (Meeks and Luetkemeyer 2020);
- that politicians made particular use of emotive arguments that claim that small or disadvantaged parties will be especially hard hit by the alleged reduction in lending caused by CECL accounting. For example, in their letter to the FASB, Meeks and Luetkemeyer (2020) highlight parities such as 'small institutions' and 'community banks' and assert that the negative impacts would extend to 'lower income and middle-class Americans'. These emotive and simplistic claims are far more likely to resonate with politicians' constituents than technical arguments about the appropriateness of CECL accounting (Howieson 2011);
- that the implementation of the CECL requirements would impose unnecessary additional costs on financial institutions (especially small institutions) and the future expected credit losses are too difficult to measure due to the current high levels of uncertainty associated given the conditions associated with the pandemic (Meeks and Luetkemeyer 2020); and
- that '[t]here is simply too much uncertainty at this time to implement a foundational change to our financial accounting system' (Meeks and Luetkemeyer 2020).

During the GFC, the opponents of fair value accounting had adopted an additional tactic to attempt to delay its implementation. This was to demand that the Securities and Exchange Commission (SEC) conduct research and gather evidence about fair value accounting's alleged pro-cyclical effects (SEC 2008). The hope was that the time taken to undertake the necessary research would be slow enough that the enthusiasm for fair value accounting would wane. Interestingly, a similar tactic appears to have been attempted with regard to CECL accounting. In their letter to the FASB, Meeks and Luetkemeyer (2020) urge it to 'take this opportunity to reconsider the broader economic impacts of this new accounting standard, and to work with the bank regulators to study closely the expected impact on small business loans, consumer credit, mortgage lending, and pay particular

attention to minority and lower-income communities. Importantly, we must confirm whether CECL implementation would prove procyclical'. Similar to the situation during the GFC in which the SEC was legislatively required to undertake research, section 4026(f) of the CARES act requires the Comptroller General of the US to conduct a study on the loans, loan guarantees and other investments provided under section 4003. Maurer (2020) suggests that the impact of CECL accounting would be included in that government study.

### *The FASB's counter arguments*

On the same date that Meeks and Luetkemeyer sent their letter to the Chair of the FASB, Kathleen Casey, the Chair of the Financial Accounting Foundation (FAF), which oversees the FASB, wrote to the majority and minority leaders of the House of Representatives and Senate (Casey 2020). Her objective was to remove from the proposed CARES Act tentative sections that would override the FASB's standards with regard to CECL and Troubled Debt Restructurings. With regard to the proposals to override CECL accounting, Casey (2020) presents three arguments against the proposal:

1. The issue of concern was not a financial reporting matter but rather one of ensuring banks held adequate capital. This matter could only be addressed by changes instituted by prudential banking regulators. A change in the accounting method would not solve the prudential concern.
2. By overriding the FASB's CECL accounting Congress would negatively impact on the provision of decision-useful information and harm investors and capital markets as CECL was a superior method compared to the previous incurred loss model.
3. Revoking CECL accounting would impose unnecessary and significant costs on banks and other entities because they had already invested heavily in migrating their information and other systems from the old incurred loss approach to the CECL.

In addition, Casey (2020: 2) notes the threat to the FASB's independence that was associated with the intrusion of Congress into the FASB's standard-setting process stating that 'it fundamentally undermines the longstanding and time-tested approach in the U.S. to transparent, rigorous and independent accounting standard-setting, which market participants rely upon and that plays a critical role in supporting our capital markets and broader economy'.

The Chair of the FASB, Harold Schroeder, also objected to Congress's proposal to allow banks to opt out of CECL accounting. He was reported as noting that providing the option will mean that some entities will still adopt CECL and others won't and 'investors do not

like the lack of comparability an option will bring' (Lugo 2020). Schroeder also reiterated the FAF Chair's observation that the proposed law would impose heavy costs because so many entities had already prepared for CECL accounting. In addition, Lugo (2020) has reinforced the concern about the threat to the FASB's independence.

### *Outcome of the CARES Act*

Notwithstanding the FASB's arguments, the opponents of CECL accounting were ultimately successful in incorporating provisions into the CARES Act that resulted in some push-back against the implementation of the FASB's ASC 326. Paragraph (b) of section 4014, *Optional Temporary Relief from Current Expected Credit Losses*, states:<sup>5</sup>

Notwithstanding any other provision of law, no insured depository institution, bank holding company, or any affiliate thereof shall be required to comply with the Financial Accounting Standards Board Accounting Standards Update No. 2016–13 ("Measurement of Credit Losses on Financial Instruments"), including the current expected credit losses methodology for estimating allowances for credit losses, during the period beginning on the date of enactment of this Act and ending on the earlier of—

1. the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates; or
2. (2) December 31, 2020.

It is important to note that section 4014 does not permanently remove the CECL requirements of ASC 326 but rather provides banks with the *option* not to apply those requirements and if that option is taken, it can only be exercised until 31 December 2020 at the latest (a period of no more than eight months from the enactment of CARES).

Contemporaneously with the enactment of CARES enactment, the Office of the Comptroller of the Currency (Treasury), the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation issued an Interim Final Rule that allows banks that implement CECL before the end of 2020 the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to that if the incurred loss method was used, followed by a three-year transition period (Office of Comptroller of the Currency, Treasury et al. 2020). This new rule effectively relieves the prudential capital constraint that would otherwise have been incurred by using CECL.

### *After the CARES Act – A case of ‘be careful what you wish for’*

Haggerty (2020) reports that in the immediate aftermath of the enactment of CARES, the banking industry aimed to continue to exert pressure to have the temporary relief from CECL made permanent. Banks were initially able to draw optimism about this possible outcome when the Chief Accountant of the SEC, Sagar Teotia, issued a *Public Statement* on 3 April. That document indicates that for those entities which exercise the options given to them in sections 4013 and 4014 of CARES, the SEC ‘staff would not object to the conclusion that this is in accordance with GAAP for the periods for which such elections are available’ (Teotia 2020; White 2020b). This avoided any potential conflict with the long-held requirement that financial statements must comply with US Generally Accepted Accounting Principles.

However, White (2020b) reports that many banks were soon reconsidering whether the benefits of adopting the option of non-compliance with CECL accounting would be worth the costs. One of the primary reasons for this was that CARES only provided exemption until 31 December 2020, at the latest. When clarification was sought from the SEC on how the CARES requirements would be administered, it was discovered that those entities which had adopted the option would be required ‘to restate their year-to-date results when they [eventually] adopt the standard to reflect its application as of the beginning of their fiscal year (e.g., 1 January 2020 for a calendar-year entity)’ (EY 2020: 1). Consequently, banks would still need to keep the necessary information and make the necessary measurements whether or not they exercised the option under CARES. The SEC’s requirements effectively watered down the temporary exemption won by banking lobbyists and their political supporters. White (2020b) also notes feedback from consultants who reinforced the argument previously presented by the FAF and FASB that many banks had already invested heavily in developing the necessary systems for the 2020 implementation of CECL accounting. As a result, those banks were reluctant to waste that investment.

Finally, the loosening of prudential capital constraints by the Office of the Comptroller of the Currency (Treasury), the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation has further reduced the immediate concerns of banks regarding the potential negative effects of CECL accounting.<sup>6</sup>

### Summary

Since there is a long list of developments, releases and publications we attempt to summarise the implications in the following overview.

Country/ Area	Accounting standard	Supervising entities	Actions	Response	Result
Continental Europe and UK	IFRS 9, ECL model	ESMA, EBA, ECB, Bank of England, PRA	Prudential applica- tion of IFRS 9, increasing flexibility in judge- ment and interpreta- tion Regula- tory relaxation of capital require- ments (Basel III) and extension of transition period	IOSCO and IASB still endorse IFRS 9 BSBC accept regulatory measures	IFRS 9 still fully applied, but in Eurozone more mild applica- tion Imple- mentation of Basel III reforms is delayed
US	ASC 326, CECL model	SEC, FASB, FAF	CARES Act, delay CECL ap- plication, extension of transition period (regula- tory measure)	FASB and FAF emphasise applica- tion of CECL model as devel- oped, and oppose any delay	Opt-out option by CARES Act to avoid CECL ap- plications but effectively limited in its attrac- tiveness to banks, FASB still prefers full ASC 326 applica- tion to improve trans- parency

### Concluding Remarks and Recommendations

This paper reflects on the current developments regarding the COVID-19 pandemic’s effects on financial accounting and reporting. For 2019 annual reports the concerns will primarily be reflected in going concern issues, non-adjusting balance sheet events and additional disclosures in auditing reports. For 2020, high uncertainty will affect the financial reporting of banks worldwide. The potential negative consequences for the stability of the world’s financial sector could be substantial.

Given the complexity of the pandemic, the neutral application of existing accounting standards is of more importance than ever as it ensures objective decision-useful information that serves comparability, maintenance of a level playing field and transparency. Worldwide interventions by prudential banking regulators, however, has considerable potential to interfere with these fundamental contributions of financial statements.

IFRS 9 and US ASC 326 are forward-looking standards based on entities' expectations regarding future credit events. They provide more forward-looking information on loan losses than the previously used incurred loss model. Accounting for the impairment of financial assets is especially challenging for banks as it is developed to integrate approximations of credit events, and consequent cash deficit, and is based on a model that uses statistical weighted probabilities of risks. The differences between ECL and CECL are limited in scope. Both standards stimulate the use of fair value accounting. However, in our reflection we also show that studies from the previous crisis already show that the application of fair value can result in legitimate concerns and a procyclical effect resulting in a deteriorated effect (Laux and Leuz 2009; McSweeney 2009). We note above the requirement in the CARES Act for the Comptroller General of the US to conduct a study into the effects of the CECL accounting. Academic researchers have a key role to play in providing regulators with empirical evidence about the decision-usefulness of ECL and CECL models.

Our review of the political interventions suggests both similarities and differences in the experiences of the IASB and FASB between the GFC and the COVID-19 experience (although the latter still, of course, has a long way to unfold). Howieson's (2011) description of the GFC demonstrates the significant difficulties and losses faced by accounting standards setters on both sides of the Atlantic. At that time, banking lobbyists and the power of prudential banking regulators allowed the IASB and FASB to be 'played off' against one another in a series of debilitating roll-backs of their respective fair value standards. In the case of the COVID-19 crisis, however, although the banking lobbyists and their political allies have adopted surprisingly similar tactics to those used in the GFC, they have been largely ineffective to date in achieving changes to accounting standards for ECL and CECL. It is true that in the US, the CARES Act officially resulted in providing banks with the option to defer CECL accounting but the very limited time frame for this option, combined with a relaxing of the manner of measuring prudential capital requirements, means that the opponents of CECL accounting have won a victory in name only.

The analysis of the EU context suggests that prudential banking regulators have encouraged banks to downplay

the effects of the pandemic by overemphasising the suggestion that ECL provisions should be based on expectations about the long term. As in the US, the prudential banking regulators appear more willing this time to circumvent the impact of IFRS 9 by changing their rules for measuring bank capital rather than seeking to have the accounting standards changed. As we are relying on publicly available information, we can only speculate on why, relative to the GFC, there is on this occasion (1) less heat between the IASB and European and UK prudential banking regulators and (2) the strategies of the opponents of CECL accounting in the US have effectively been thwarted. It is possible that all the protagonists have learnt lessons from the unseemly public displays shown during the GFC. For example, prudential banking regulators may have decided that it is less costly (both in resources and politically) and more effective to simply change the methods of measuring bank capital for prudential purposes than seeking to change the standards of an independent body. Another possibility is that accounting standard setters now have more supportive relationships with relevant regulators. For example, in the US situation we described above, the actions of the SEC to provide an interpretation of the CARES provisions that would require banks opting out of CECL to later provide CECL-based comparative figures was effectively supportive of the FASB rules.

The result is that for both the US and banks under IFRS it is not even entirely clear what assessments banks can and will use in their calculations estimating the effects of COVID-19. The types of assumptions made, sensitivity analyses and other aspects of operationalising ECL are largely a 'black box' to those outside the banking sector. Full and informative disclosures will be of utmost importance to financial statement users at this challenging time. Again, academics can contribute to our understanding of the types, appropriateness and limitations of the judgements made by those who use these models. Such research may be able to identify biases that decision makers bring to these ECL measurements and ways in which those judgements can be improved.

This contemporary paper obviously comes with several limitations. We have only been able to access publicly available information which is likely to be incomplete in describing the behaviour of the various parties we have described here. More importantly, the COVID-19 crisis is continuing to unfold as we write and later circumstances may impact on the relationship between accounting standard setters and prudential banking regulators.

## Notes

- 1 In its Situation Report-139 issued on 7 June 2020, WHO reports that there had been 6 799 713 confirmed cases of COVID-19

infection around the world of which 397 388 had resulted in death (WHO 2020b). At that date, it was generally perceived that the infections had not yet reached their peak.

- 2 This list of reporting and auditing issues associated with COVID-19 has also been highlighted by accounting practitioners. See, for example, EY (2020).
- 3 <https://www.gaapdynamics.com/insights/blog/2019/02/19/credit-impaired-differences-between-u.s.-gaap-and-ifrs/>
- 4 CET1 stands for Common Equity Tier 1 which is a component of banks' equity for the purposes of determining capital adequacy.
- 5 In addition to section 4014, section 4013 also temporarily clawed back the operation of FASB accounting requirements for troubled debt restructuring. Section 4013 specified that 'During the applicable period, a financial institution may elect to—(A) suspend the requirements under United States generally accepted accounting principles for loan modifications related to the coronavirus disease 2019 (COVID-19) pandemic that would otherwise be categorized as a troubled debt restructuring; and (B) suspend any determination of a loan modified as a result of the effects of the coronavirus disease 2019 (COVID-19) pandemic as being a troubled debt restructuring, including impairment for accounting purposes'.
- 6 In addition, government agencies and the FASB have shown a willingness to engage with each other on issues arising from the COVID-19 pandemic. For example, on 22 March 2020, reporting upon troubled debt restructurings (TDRs) was part of the subject matter of a guidance statement issued jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau and the Conference of State Bank Supervisors (Board of Governors et al. 2020). In that statement it was noted that 'The agencies have confirmed with staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs'.

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