Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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E-mail: commentletters@ifrs.org

21 June 2013

Ref.: BAN/AKI/HBL/SRO

Dear Mr Hoogervorst,

Re: FEE Comments on IASB Exposure Draft Financial Instruments: Expected Credit Losses

(1) FEE is pleased to provide you with its comments on the IASB Exposure Draft Financial Instruments: Expected Credit Losses (the "ED").

(2) We consider the proposed model as a good step forward in many respects, particularly the split of portfolios based on relative credit quality combined with the absolute threshold and the measurement approach to the "2nd and 3rd bucket". We are seriously concerned regarding the measurement of the "bucket 1", particularly due to the "day-one losses" as described later in this letter.

(3) We believe that this proposed expected loss model is more responsive to changes in credit conditions than the current IAS 39 incurred loss model. We acknowledge that the model lacks conceptual foundation in the bucket 1, particularly since it generates day-one losses and there is no conceptual basis in setting the 12-month expected loss period. However, in our opinion the model introduces important practical solutions that are necessary to resolve some of the operational issues and implementation costs raised by many constituents, including FEE, in relation to the 2009 ED model and the subsequent Supplementary Document (SD).

(4) In general, the model is considered to be an improvement to the 2009 ED model from a practicability point of view. However, we favour the development of an alternative model for "bucket 1" measurement, if possible, that would strike the right balance between:

a) a technically sound but almost impossible to implement model previously proposed in the 2009 ED, and
b) a model which provides a simple solution to operational challenges but lacks conceptual justification (pure pragmatic solution, which might be appreciated by preparers where the effects are less pervasive).

(5) There should be appropriate consideration given to the costs and benefits model (as well as any other expected loss model) of a new basis for estimating credit losses. Although FEE is not proposing to keep the current incurred loss model, we wish to highlight the fact that the proposed expected loss model is inherently more subjective and comparability among reporting entities will become an issue, particularly for long-term assets. An expected loss model required by this ED would be more subjective and very costly to implement for large and small banks and insurers, yet would not, in our view, provide better quality information for users due to the approach to measurement of bucket 1 assets.

(6) We feel strongly that a new standard should be more principled based, allowing preparers to have greater flexibility to implement the requirements in a cost efficient way. As we state above, the 2009 ED was more technically sound but the cost of implementation prohibitive. In light of highly judgemental nature of impairment accounting, we believe there is a solution that has the technical soundness of the 2009 ED yet is scalable, more pragmatic and less costly to implement.

Balanced solution

(7) We share those arguments expressed by Mr Cooper, where he disagrees with the establishment of the 12-month expected credit loss allowance, particularly for the period immediately succeeding the origination of a loan. The recognition of this loss allowance would fail to reflect the economics of lending activities and is likely to mislead users. The fact that an asset acquired at fair value is immediately mandatorily remeasured down to reflect losses that are compensated by contractually fixed and probable interest income accrued over the life of the instrument does not faithfully represent reality. When determining the consideration paid, it can be assumed that the creditor takes into account any knowledge he has about the debtor‘s credit risk. In fact, the model systematically reduces the asset returns in the first 12 month period and systematically overstates these returns in the last 12 months to maturity.

(8) A balanced solution would be somewhere between the originally proposed models which produce meaningful profit and loss numbers and the current more practical solution which, however, would reflect the key general accounting principles contained in the Framework. Therefore, we would like to see an amended model that would deal with the day-one loss for “bucket 1” items and provide faithful representation of the income statement effects. We think that the BC25 examples combined with some practical simplifications, might achieve this. Once the income statement effects are solved, there may be more approaches allowed for preparers so that they can find the most relevant and cost effective way of implementation. Results of the field test that EFRAG is currently conducting and the input received from the banking industry could be utilised in developing such a solution for “bucket 1” items.

(9) We certainly do not support the FASB model, particularly since it produces significant day-one losses and front-loads losses before the related income is generated. This lacks any theoretical fundaments in a framework promoting faithful representation and neutrality. Furthermore, we are of the view that such model would negatively and unfairly affect the access to finance by the European economy, which largely relies on debt and particularly bank funding.

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Significant implementation costs of the 12-month expected credit loss model

(10) We realise that financial reporting and regulatory reporting fulfil different but not necessarily conflicting objectives of investor protection and financial stability respectively. We always advocated the view that the approaches should be aligned wherever differences cannot be justified by such different objectives - in order to optimise cost/benefit and promote users' understanding. The proposed 12-month expected credit losses recognised at purchase or origination of financial assets significantly differ from those calculated as part of the regulatory capital provision under the prudential requirements for banks and we doubt that all differences are justified. Similar concerns may hold true for insurers. As a consequence, there will be a significant cost expected on the implementation of the ED's proposed requirements for those subject to prudential regulation. We refer to our answers to Question 2 in the appendix for further details about these differences.

(11) Therefore, it is advisable - from a practicability point of view - to further investigate the individual differences and where justified, modify them to be in alignment with the regulatory model and/or liaise with the regulators to align the regulatory models with financial reporting or provide conceptual justification for any unavoidable deviations.

Other set-backs of the proposed expected credit loss model for bucket 1

(12) Concerns have been expressed that there is a real risk that the proposed model would disadvantage lending to higher risk counterparties such as SME businesses because of the artificial day-one impact of such loans on annual results of the lender.

(13) Furthermore, smaller or growing banks would also be disadvantaged due to their growing loan books which would likely result in a larger negative impact on the income statement. That impact could discourage new entrants to the market or provide obstacles for them to obtain sufficient market share and secure scale efficiencies.

(14) It is important to note that only few banks currently use the 12 month expected loss information for the purposes of prudential regulation. Therefore, the vast majority of banks by number, which are mainly the smaller banks by size and complexity, will be faced with a very significant cost to implement the ED. Banks in this category have to build systems to estimate 12 month expected losses from scratch as they are not able to utilise the "standardised approach" methodology they currently use for regulatory capital purposes.

Lifetime expected credit losses for "bucket 1"

(15) We note that the requirement to recognise lifetime credit losses for "bucket 1" assets expected to become impaired in the next 12 months, which assessment will be carried out on an asset-by-asset basis, makes the model more judgmental than the current IAS 39 incurred loss model. The increased level of judgment required to apply the proposed model is likely to broaden the difference in terms of comparability between the reporting entities.

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In summary, FEE supports major parts of the proposal but suggests finding a practical solution to the measurement of the standard loan and bond portfolio, if possible, that would keep the income statement meaningful and avoid day-one losses for "bucket 1" assets**.**

Our responses to the questions in the Invitation to comment on the ED are included in the Appendix to this letter.

For further information on this letter, please contact Hilde Blomme, FEE Deputy CEO at the FEE Secretariat on +32 2 285 40 77 or via e-mail at hilde.blomme@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Objective of an expected credit loss impairment model

Question 1
(a) Do you agree that an approach that recognises a loss allowance or provision at an amount equal to a portion of expected credit losses initially, and full expected credit losses only after significant deterioration in credit quality, will reflect:

(i) the economic link between the pricing of financial instruments and the credit quality at initial recognition; and
(ii) the effects of changes in the credit quality subsequent to initial recognition?

If not, why not and how do you believe the proposed model should be revised?
(b) Do you agree that recognising a loss allowance or provision at an amount equal to all expected credit losses from initial recognition, discounted using the original effective interest rate, does not faithfully represent the underlying economics of financial instruments? If not, why not?

Question 1 (a)

(16) We agree with and fully support the recognition of full expected credit losses only after significant deterioration in credit quality. However, we are not convinced of the merit of recognising a loss allowance or provision at an amount equal to a portion of expected credit losses immediately upon the asset recognition. Therefore, we share the arguments expressed by Mr Cooper, who disagrees with the establishment of the initial 12-month expected credit loss allowance.

(17) We share his view that the 12-month period is without conceptual foundation and that the recognition of this loss allowance on acquisition fails to reflect the economics of lending activities and is likely to mislead users. While there is general agreement that the 2009 ED and subsequent SD should be simplified, we wish this to be achieved for “bucket 1” assets through a periodic adjustment approximating the income pattern and not a one-off amount on acquisition. We are concerned that the proposed model systematically reduces the asset returns in the first 12 month period and systematically overstates these returns in the last 12 months to maturity.

(18) While the proposed model is a clear improvement to the 2009 ED model from a practicability point of view, we would favour the development of an alternative model for the “bucket 1” measurement, if possible. A model that would strike the right balance between the 2009 ED model, which produces meaningful income statement numbers, and a solution which is less judgmental, conceptually more sound and, therefore, easier to implement.

(19) We think that the BC25 examples, particularly BC25(c) or the approach suggested by Mr Cooper, if applied only to “bucket 1” assets, combined with some practical simplifications, might achieve this. Once the income statement effects are solved, there may be more approaches allowed for preparers so that they can find the most relevant and cost effective way of implementation in their systems. Results of the field tests that EFRAG is currently conducting and the input received from the banking industry could be utilised in developing such a solution for “bucket 1” items.

Question 1 (b)

(20) We certainly do not support the FASB model which requires lifetime expected credit losses to be recognised at initial recognition. This would produce even more significant day-one losses and result in an excessive front-loading of credit losses given that initial expectations of credit losses are priced into a financial asset. It would also provide less relevant information about the effects of changes in the credit quality subsequent to initial recognition.

The main proposals in this exposure draft

Question 2

(a) Do you agree that recognising a loss allowance (or provision) at an amount equal to 12-month expected credit losses and at an amount equal to lifetime expected credit losses after significant deterioration in credit quality achieves an appropriate balance between the faithful representation of the underlying economics and the costs of implementation? If not, why not? What alternative would you prefer and why?

(b) Do you agree that the approach for accounting for expected credit losses proposed in this Exposure Draft achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than the approaches in the 2009 ED and the Supplementary Document (without the foreseeable future floor)?

(c) Do you think that recognising a loss allowance at an amount equal to the full lifetime expected credit losses from initial recognition, discounted using the original effective interest rate, achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than this Exposure Draft?

Question 2 (a)

(21) We share Mr Cooper's view that the 12-month period and day-one loss recognition are without conceptual foundation – indeed it is contradictory to the Conceptual Framework. Therefore, we would support an alternative model for the measurement of "bucket 1" assets producing more meaningful profit and loss numbers with a stronger conceptual basis.

(22) Smaller or growing banks would be disadvantaged because with their growing loan books the initial losses would be larger which would discourage new entrants to the banking market.

(23) Secondly the proposed model is very costly to implement. The calculation of expected credit loss is by its nature subjective in any case, but there should be better solutions to avoid disadvantaging small or growing banks forced to recognise the artificial day-one losses on their new loan receivables. Additional costs will be incurred by larger banks, due to the differences between the proposed model and the Basel Accord requirements. We realise that financial reporting and regulatory reporting fulfil different, but not necessarily conflicting, objectives of investor protection and financial stability respectively. We always advocated the view that the approaches should be aligned wherever differences cannot be justified by such different objectives - in order to minimise cost and promote understanding.

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(24) In particular, the following differences have been noted between the Basel III (and from it derived European CRD IV/CRR) requirements and the proposed ED model:

- The Basel expected loss model's LGD assumes a downturn whereas the ED expectations are based on the most probable scenario.

- The Basel expected loss model has floors on the PDs and LGD whereas the ED does not.

- There is no definition of default in the ED. It would be useful to align the default definition that triggers the transfer from "bucket 2" to "bucket 3" with the Basel Accord definitions including the 90 days past due rebuttable assumption.

- There might be a difference in discount rates since Basel requires the rate to be the cost of equity or cost of debt whereas the under the ED it can be anything from risk free to EIR. However, we agree that this difference could be overcome in most cases by the reporting entity's acceptance to use the regulatory rate.

- Basel requires admin costs to be included in certain (or all) areas while the ED does not.

- The PDs in Basel are through the cycle whereas the ED is a probability weighted estimate of the expected future cash flows.

- Basel calculations use historical rates/cash-flows estimates, whereas the ED uses probability weighted estimate of the future cash flows.

- There may be assets in the ED which are in "bucket 2", whereas Basel Accord would place them in the 12 month expected loss portfolio, since they did not default.

(25) Given the afore-mentioned differences, it is expected that regulated credit institutions will not be able to use directly their current risk management systems for providing data for regulatory reports. Additional information would need to be gathered to assess whether lifetime expected credit losses are required to be recognised and to measure expected credit losses over the next 12 months in "bucket 1" assets.

(26) Furthermore, it is important to note that few banks currently use the 12 month expected loss information for the purposes of prudential regulation. Therefore, the vast majority of banks by number, which are mainly the smaller banks by size and complexity and most of other financial institutions, will be faced with a very significant cost to implement the ED. Financial institutions in this category have to build systems to estimate 12 month expected losses from scratch as they are not able to utilise the "standardised approach" methodology they currently use for regulatory capital purposes.

(27) It is desirable for the ED to have a definition of "default", aligned as far as possible with that used in the Basel Accord prudential regulation. Therefore, we recommend the Board to work together with regulators to mitigate these differences where possible and provide explicit conceptual justification for retained deviations, if any, based on different goals of financial and regulatory reporting.

Question 2 (b)

(28) As indicated above, we agree with the proposed "bucket" borders and measurement of "bucket 2 and 3" portfolios. However, we favour developing an alternative model addressing the operational difficulties and complexities of the 2009 model while approximating its income statement impact for the "bucket 1" assets.

(29) Saying that, the proposed model is considered to be a clear improvement to the 2009 ED model from a practicability point of view and also to the current IAS 39 model. Consequently facing a discrete question whether the status quo is retained or the new model implemented, we would tend to prefer the new one. The 2009 ED proposed that an entity should measure amortised cost at the expected cash flows discounted at the original credit-adjusted effective interest rate. There was a general support for that concept, but many considered the operational difficulties in applying the 2009 model impractical and clearly disproportionate.

Question 2 (c)

(30) As mentioned in the cover letter and our answer to question 1 (b), we certainly do not support the FASB model.

Scope

Question 3
(a) Do you agree with the proposed scope of this Exposure Draft? If not, why not?

(b) Do you agree that, for financial assets that are mandatorily measured at FVOCI in accordance with the Classification and Measurement ED, the accounting for expected credit losses should be as proposed in this Exposure Draft? Why or why not?

Question 3 (a)

(31) We agree with the proposed scope of the ED. However, the final lease accounting and insurance contract standards should be taken into account when formulating final views on the scope of this ED.

(32) We agree with the view that the same impairment approach should apply for loans, loan commitments and loan guarantees, since they are generally managed within the same business strategy and their cash flows are triggered by the same risk patterns. It is also valid for debt securities which are not measured at fair value through profit and loss.

Question 3 (b)

(33) We agree with the proposed accounting model for financial assets that are mandatorily measured at FVOCI. We agree that both the amortised cost category and the FVOCI category are subject to the same impairment requirements. This ensures comparability of amounts that are recognised in the income statement for assets with similar economic characteristics and reduces complexity. In order to further limit the application costs, we could agree to accept that assets with fair value exceeding the amortised cost do not need to be tested for impairment.

12-month expected credit losses

Question 4 Is measuring the loss allowance (or a provision) at an amount equal to 12-month expected credit losses operational? If not, why not and how do you believe the portion recognised from initial recognition should be determined?

(34) The requirement is operational but lacks a conceptual basis. Although the 12 month period lacks a principle justification, we consider its determination based on practical backgrounds and regulatory alignment acceptable, provided the loss recognition model is adjusted to avoid recognition of the day-one losses.

(35) As pointed out earlier, the proposed 12-month expected credit losses recognised at purchase or origination of financial assets significantly differ from those calculated as part of the regulatory capital provision under the Basel requirements for regulated banks and other credit institutions. As a consequence, there is no significant cost reduction expected on the implementation of the ED's proposed requirements.

(36) The Board should work together with regulators to mitigate these differences where possible and provide explicit conceptual justification for any deviations.

Assessing when an entity shall recognise lifetime expected credit losses

Question 5 (a) Do you agree with the proposed requirement to recognise a loss allowance (or a provision) at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition? If not, why not and what alternative would you prefer? (b) Do the proposals provide sufficient guidance on when to recognise lifetime expected credit losses? If not, what additional guidance would you suggest? (c) Do you agree that the assessment of when to recognise lifetime expected credit losses should consider only changes in the probability of a default occurring, rather than changes in expected credit losses (or credit loss given default ('LGD'))? If not, why not, and what would you prefer? (d) Do you agree with the proposed operational simplifications, and do they contribute to an appropriate balance between faithful representation and the cost of implementation? (e) Do you agree with the proposal that the model shall allow the re-establishment of a loss allowance (or a provision) at an amount equal to 12-month expected credit losses if the criteria for the recognition of lifetime expected credit losses are no longer met? If not, why not, and what would you prefer?

Question 5 (a)

(37) In principle, we agree with the proposed requirement to recognise a loss allowance at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition.

(38) We do not have particular concerns regarding the proposed double-threshold approach established to determine whether the financial assets would need to be moved from “bucket 1” to “bucket 2”. Once the established criteria related to significant credit quality deterioration are met in addition to a credit quality fall below the investment grade, full lifetime expected credit losses shall be recognised. This supports the theory that the expected credit losses at inception are priced into the product and their separate recognition would result in “double-counting”.

(39) However situations could arise where the application of these thresholds proves to be difficult. For instance, in a case of two different loans with the same counterparty where one of the loans has moved from “bucket 1” to “bucket 2” due to a significant credit deterioration, but the other one remains at “stage 1” since this loan was provided after the life-time expected credit loss is recognised on the first loan. However, we recognise that if a bank decides to provide a new loan to a client whose existing loan has deteriorated to “bucket 2”, the higher risk will certainly be priced into the product. If the initial loan subsequently reaches the “bucket 3” status, the new loan will be measured following the acquired impaired assets rules. This treatment is different from the regulatory treatment which considers overall rating of the counterparty rather than individual exposures.

Question 5 (b)

(40) We support the Board’s decision to include extensive application guidance on the assessment of a significant increase in credit risk that is also suitable for application by “non-banks”.

(41) We agree with the Board’s decision that a company can consider information about past-due status, together with other more forward-looking information, in its assessment of the deterioration in credit quality, if appropriate. We can support the inclusion of the “30 days past due” *rebuttable* presumption as part of the “bucket 2” deterioration requirement, since certain products may require different treatment (e.g. retail products, traded bonds).

Question 5 (c)

(42) We agree with the assessment for the recognition of lifetime expected credit losses should be based on changes in the probability of default, as it provides practical solutions as it does not require the full estimation of expected credit losses and saves costs. The probability of default is at the same time in most cases the most volatile parameter in the credit loss estimate.

Question 5 (d)

(43) We agree with the proposed operational simplifications.

Question 5 (e)

(44) We agree that an entity should be allowed to remeasure the loss allowance back to the 12-month expected credit loss when the criteria for the recognition of the lifetime expected credit losses are no longer met. Both unfavourable and favourable changes in credit quality should be recognised in a consistent manner using the same principles and criteria to assure faithful representation.

Interest revenue

Question 6 (a) Do you agree that there are circumstances when interest revenue calculated on a net carrying amount (amortised cost) rather than on a gross carrying amount can provide more useful information? If not, why not, and what would you prefer? (b) Do you agree with the proposal to change how interest revenue is calculated and presented for assets that have objective evidence of impairment subsequent to initial recognition? Why or why not? If not, for what population of assets should the interest revenue calculation and presentation change? (c) Do you agree with the proposal that the interest revenue approach shall be symmetrical (i.e. that the calculation can revert back to a calculation on the gross carrying amount)? Why or why not? If not, what approach would you prefer?

Question 6 (a)

(45) We agree that interest revenue should be calculated on a net basis when there is an objective evidence of impairment on an asset-by-asset basis.

(46) We also agree with the Board's conclusion that 'there are some financial assets that have deteriorated in credit quality to such an extent that presenting interest revenue on the basis of the gross carrying amount that reflects the contractual return would no longer faithfully represent the economic return'.

Question 6 (b)

(47) The requirement to present interest income on a net carrying amount when there is objective evidence of impairment adds to the complexity of the impairment model. However, this calculation method already exists under IAS 39 and therefore no additional implementation costs are expected.

Question 6 (c)

(48) We agree with the proposal that the interest income approach shall be symmetrical, since this would enhance comparability and faithful representation.

Disclosure

Question 7 (a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why? (b) Do you foresee any specific operational challenges when implementing the proposed disclosure requirements? If so, please explain. (c) What other disclosures do you believe would provide useful information (whether in addition to, or instead of, the proposed disclosures) and why?

(49) In general, we agree with the proposed quantitative disclosures for entities with significant credit risk exposures. In line with our general view that the IFRS disclosures are too extensive, we would prefer to see clear instructions that would reduce the level of disclosures for all entities where the credit exposures are less significant. We also ask the Board to further review the level of qualitative disclosures, particularly with the view to limit the information to the justified needs of the majority of users of the entity's financial reports.

(50) Accordingly, we do not propose any additional disclosures.

Application of the model to assets that have been modified but not derecognised

Question 8
Do you agree with the proposed treatment of financial assets on which contractual cash flows are modified, and do you believe that it provides useful information? If not, why not and what alternative would you prefer?

(51) We agree with the proposed treatment of financial assets on which contractual cash flows are modified.

Application of the model to loan commitments and financial guarantee contracts

Question 9
(a) Do you agree with the proposals on the application of the general model to loan commitment and financial guarantee contracts? Why or why not? If not, what approach would you prefer?

(b) Do you foresee any significant operational challenges that may arise from the proposal to present provisions arising from expected credit losses on financial guarantee contracts or loan commitments as a separate line item in the statement of financial position? If yes, please explain.

(52) We agree with the proposal to apply the general model to loan commitment and financial guarantee contracts, since both the business model, the risk characteristics and the cash flows resulting from these instruments are and should be comparable. It is also valid for debt securities which are not measured at fair value through profit and loss.

(53) We also agree that provisions arising from expected credit losses on financial guarantee contracts or loan commitments should be presented as a separate line item.

Exceptions to the general model
Simplified approach for trade receivables and lease receivables

Question 10
(a) Do you agree with the proposed simplified approach for trade receivables and lease receivables? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree with the proposed amendments to the measurement on initial recognition of trade receivables with no significant financing component? If not why not and what would you propose instead?

(54) We agree with the proposed simplified approach for trade receivables and lease receivables. However, we reserve the right to comment on lease receivable and financial placements of insurance reserves after consideration of the new standards.

Financial assets that are credit impaired on initial recognition

Question 11 Do you agree with the proposals for financial assets that are credit impaired on initial recognition? Why or why not? If not, what approach would you prefer?

(55) We agree with the proposals for financial assets that are credit impaired on initial recognition. However, we question the logic of considering initial fair value as an acceptable measurement approach for credit impaired assets when at the same time the IASB proposes to recognise a day-one loss for assets without initial credit impairment.

Effective date and transition

Question 12 (a) What lead time would you require to implement the proposed requirements? Please explain the assumptions that you have used in making this assessment. As a consequence, what do you believe is an appropriate mandatory effective date for IFRS 9? Please explain. (b) Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why? (c) Do you agree with the proposed relief from restating comparative information on transition? If not, why?

(56) It would be more appropriate to allow companies sufficient implementation period after the completion of all phases of IFRS 9. Therefore, we recommend 12 month delay in the current mandatory implementation date based on the assumption that the standard is completed before the end of 2013.

(57) We would accept a 30-month implementation period in case the standard is finalised in the beginning of 2014, provided reasonable transitory provisions are included in the final standard.

(58) A period of 30 months would bring effective date close to that for the upcoming standard for insurance contracts. The IASB should take the interaction of IFRS 9 and IFRS 4 into account, when determining the effective date. Generally users prefer to see larger changes implemented to the same effective date, in order to get a stable basis that allows for comparison over time. Also from an information system point of view it would be preferable not to have two distinct effective dates for IFRS 9 and IFRS 4 revised, unless the insurance contract project is to be finalised at a significantly later date.

Effects analysis

Question 13 Do you agree with the IASB's assessment of the effects of the proposals? Why or why not?

(59) We agree that the proposed model should result in an earlier recognition of expected credit losses.

(60) In addition, it should also be noted that smaller or growing banks would likely be disadvantaged because due to their growing loan book the front-loaded expected losses will be larger which would discourage new entrants to the banking market.