The implications of IFRS 9 – for Equity Analysts

Master’s Thesis 15 credits
Department of Business Studies
Uppsala University
Spring Semester of 2019
Date of Submission: 2018-06-05

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Abstract

The financial crisis of 2008 highlighted problems with the accounting standard IAS 39, with claims of high complexity, introduction of procyclicality in the financial statements and a proposed role of contributing to the financial crisis. The International Accounting Standard Board issued the predecessor, IFRS 9, which became effective on January 1st, 2018. IFRS 9 introduces a forward-looking Expected Credit Loss model, which significantly change the accounting of loss provisions. With the objective to provide high accounting quality, the International Accounting Standard Board and Financial Accounting Standard Board develop accounting standards based on the conceptual framework, consisting of qualitative characteristics. The study addresses the accounting quality of IFRS 9 through the research question; What implications does IFRS 9 have for equity analysts?

In order to capture the implications, a survey is designed, to reach out to accessible equity analysts of European banks. The results show that the Expected Credit Loss model under IFRS 9 implicate difficulties for equity analysts. Three themes of implications are identified, Time aspect, Complexity and Comparison. Although IFRS 9 provides useful information for the respondents, there are tendencies of a trade-off between relevance and faithful representation. The accounting quality of faithful representation is valued low due to high complexity and low comparability, which might be derived from that IFRS 9 is newly implemented. Despite the implications of IFRS 9, respondents find impairments, today, to be low and a non-vital part of the valuation process of the banking industry.

*Keywords:* Accounting quality, Accounting information, Conceptual Framework, IFRS 9, IAS 39, Expected Credit Loss model, Equity analyst
Acknowledgements

There are several persons that have been a part of the process of writing this thesis. First, we would like to thank our supervisor David Andersson. Secondly, we would like to thank all our respondents as they contributed to making this thesis possible. We would also like to thank the persons that have given us feedback and support during this journey.

Niklas Rådström & Neil Eriksson

Spring 2019
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1. Introduction

IFRS 9, the new accounting standard for credit loss recognition, became effective as of January 1st, 2018, as it superseded the old regulation IAS 39 (IFRS, 2019). IFRS 9 encompass significant changes for the banking industry as it introduces a new approach for credit loss recognition (ibid.). The banking industry is profoundly affected, considering their lending activities and the nature of dealing with financial instruments (Frykström & Li, 2018). IFRS 9 introduces a unique and predictive element to financial reporting. IFRS 9 introduces explicitly an Expected Credit Loss (ECL) model, which is forward-looking and require banks to predict and recognize future credit losses in the financial statements (Gerald & Edwards, 2016; EBA, 2017; Frykström & Li, 2018). IAS 39, in contrast, was backward-looking and solely recognized already incurred losses (ibid.). IAS 39 was criticized during the financial crisis of 2008, as the impairment rules led to massive credit losses at a late stage (Frykström & Li, 2018; Hitz, 2006; Power, 2009). The accounting disclosures from banks under IAS 39 was insufficient and provided too little information during the crisis for users of financial reports (Bengtsson, 2011). Users also criticized the regulation for being too complicated and for introducing procyclicality in the financial statements (Barth, 2010). In the aftermath of the crisis, it became clear that IAS 39 needed improvement and the International Accounting Statement Board (IASB) initiated the replacement process of IAS 39 (IFRS, 2014).

The development of IFRS 9 was preceded by a harsh discussion regarding the role of fair value measurements in accounting, and the intentions of Financial Accounting Standards Board (FASB) in shifting from rule-based standards to more flexible principle-based accounting standards (Laux & Leuz, 2010). Furthermore, the debate concerned whether principle or rule-based standards are better in embracing the objectives of financial reporting (FASB, 2016). Laux & Leuz (2010) and Barth & Landsman (2010) did, however, not find any evidence that fair value accounting and the accounting standards itself contributed to the severeness of the crisis in 2008. Kaburek (2016) states how abstract principles might increase problems of comparability but also that rule-based approaches can lead to higher complexity and thus increase difficulties of the application of accounting standards.
The importance of accounting information cannot be underestimated as it plays a crucial role in decision-making (Lawrence & Miller, 1976; Bushman & Smith, 2003). The Conceptual Framework for Financial Reporting, with objectives and concepts, was introduced by IASB and FASB as a foundation to develop accounting standards. These concepts provide directions for financial reporting with the intention to increase the "decision-usefulness" of the accounting information (IFRS, 2018). The importance of accounting information for users is declared by FASB (FASB, 2006), who states that one of the most fundamental and essential objectives of accounting is to deliver relevant and purposeful information to users in order to predict and present future company value. The primary role of accounting is, therefore, to reflect the underlying economic phenomena to facilitate the process of e.g., stock valuation (Christensen et al., 2016). However, the quest for decision-usefulness is followed by the relevance of information and a trade-off of faithful representation (Whittington, 1989).

Dechow (1994) found empirical evidence that accounting often is successful when it comes to delivering necessary information for company valuation. Equity analysts depend heavily on accounting information (Donaldson & Preston, 1995; Gassen & Schwedler, 2010; Vergoossen, 1993). Breton and Taffler (1995) confirm this by concluding that accounting figures are one of the most important sources of information for equity analysts in stock valuation. Hope (2003) further state that equity analysts must have a solid understanding of accounting principles besides a deep understanding of the firm's strategies. However, besides accounting information, the direct relationship with employees of a firm is also highly relevant for equity analysts (Barker et al., 2012; Barker, 1998).

Marton (1998) state that financial statements are essential in resolving uncertainty about the past and present and thus play an essential role in forecasting future earnings. In the absence of information covered through financial reporting, Barth et al. (2001) and Beaver (2002) found that equity analysts themselves will develop sophisticated tools to forecast economic events. Accordingly, important information should, therefore, be reflected in stock prices regardless if companies choose to disclose certain information or not (ibid.). Furthermore, as equity analysts process the accounting information, the analysts will then try to forecast the information, which leads to the original accounting information being less timely over time (ibid.). Holthausen and Watts (2001) also point out that there sometimes, during the development of accounting standards, is a trade-off
between stakeholders as there are different demands of accounting information. This might, in the long-run lead to the failure of recognizing or capturing some economic aspects (ibid.).

According to Williams and Ravenscroft (2015), accounting research has focused on the concept of decision-usefulness, which has become the guide when evaluating the effectiveness of accounting and financial reporting. Decision-usefulness became the connection between users of financial statements and accounting standard issuers (ibid.).

Despite the research about the usefulness of accounting information, multiple studies indicate the opposite regarding equity analysts. Biddle & Ricks (1988), Bernard & Thomas (1990) and Kim & Schroeder (1990) found that equity analysts fail to incorporate all available information in their earnings forecasts. The reports that equity analysts create further reaches out to a broad audience, which increases the importance of accurate information (Harrison & Jeffrey, 2006). A crucial aspect that affects the usefulness of the accounting information is the degree of complexity of the information, which can lead to wrong interpretations by analysts (Lachmann et al., 2011). Chen et al. (2002), found a correlation between higher complexity and less accurate forecasting of analysts and FASB (2002), found the same evidence in a study even for experts in the specific area.

1.1 Purpose

IFRS 9 dramatically change the accounting of credit losses with the introduction of the ECL model. The purpose of the thesis is, therefore, to reveal the possible implications of the accounting standard for equity analysts. In order to capture possible implications, we use the perspective of the Conceptual Framework of Financial Reporting and its accounting qualities as a foundation. Through a survey, we reach out to accessible equity analysts covering European banks and analyse the results, in terms of the accounting quality.

1.2 Research Question

What implications does IFRS 9 have for equity analysts?
2. Review of the Accounting Standards

This chapter provides a thorough examination of the changes from IAS 39 to IFRS 9. We have focused on the valuation and impairment stages and illustrate the challenges of each respective accounting standard. The section regarding hedge accounting, in IFRS 9, will not be in focus in this study. The reason to exclude hedge accounting is that it has not been implemented by most banks (PWC, 2017).

2.1 IAS 39

In 2001, IAS 39 became active as an accounting standard for recognition and measurement of financial assets (Deloitte, 2019). IAS 39 was fundamentally a rule-based accounting standard and included specific rules of classifications of financial assets and how to measure them (IFRS, 2019). Under IAS 39, financial assets were measured on amortized cost (AC) or fair value (FV). Financial assets were classified under four different categories.

1. Financial assets at fair value through profit or loss (FVPL)
2. Investments held-at-maturity
3. Loans and receivables
4. Financial assets available-for-sale

(BDO, 2017a)

The classification of the assets was made at the initial recognition and was thereafter not changeable (Deloitte, 2019). Financial assets classified as FVPL could be recognized as either financial assets held for sale, derivative assets, or through an FV option. The FV option provided an opportunity to reclassify an asset to FV if it provided better relevance under certain circumstances (ibid.). As the comparability decreases if assets are reclassified, IASB did not regard it appropriate to have flexible standards and allowed reclassification only when the accounting information quality was considered to increase (IASB, 2008). Fiechter (2011) and Barone & Gullkvist (2018) concluded that one-third of European banks took the opportunity of this reclassification. “As a result, they avoided
substantial fair value losses and thus reported better ratios such as ROA and ROE, higher book value of equity and higher regulatory capital” (Barone & Gullkvist, 2018: 31).

An evident limitation of IAS 39 was the impairment process. According to the impairment rules of IAS 39, impairments were applicable only under three of the four categories. Impairment under the classification of financial assets at FVPL was restricted (PWC, 2009). The recognition of impairment under IAS 39 was applicable only if the financial asset showed a credit loss, or if a loss was very likely to arise. This led to impairment built on historical information (Frykström & Li, 2018). IAS 39 further required that there had to be indications that the acquisition value could not be recovered (ibid.). An issue arising with the identification problem under IAS 39 was that a decline in value could be defined differently among companies, and as companies must be consistent in their financial reporting, this produced different outcomes (Gornjak 2017; Huian 2012).

The rule-based approach of IAS 39 provided detailed guidance for different financial assets, but the accounting standard was criticized for being too complicated by practitioners and enforcers (Gornjak, 2017). After the financial crisis in 2008, critics started to raise the concerns and demanded changes. The extensive criticism of IAS 39 was rooted in the concept of “too little, too late” (KPMG, 2014). Even if banks saw indications of significant loan losses, they had little flexibility to show users the losses before they had incurred (ibid.). However, Kaburek (2016) states that “A prime argument for rule-based standards is that in their absence, there will be a lack of comparability”.

2.2 IFRS 9

IFRS 9 became effective as of January 1st, 2018 and provide a principle-based approach and thereby more flexibility among appliers (Dietrich & O’Connell, 2018). The accounting standard consists primarily of three components. First, classification and measurement of financial assets, secondly, a forward-looking impairment model (the ECL model), and third hedge accounting (IFRS, 2018).

As a response to the criticism regarding the complexity of IAS 39, IFRS 9 introduced a simplified classification method for financial assets (BDO, 2017b). IFRS 9 increase the appearance of fair values rather than historical cost accounting (BDO, 2017b; Deloitte, 2019). According to the classification and measurement definitions of financial assets
under IFRS 9, a financial asset must fulfill a business criterion concerning the purpose of the asset. This requirement is called the business model criteria and implicate that an asset is classified based on how it reflects the company's underlying business and purpose (Deloitte, 2019). In order to fulfill the business model requirement, the company's financial assets must be kept within a business model with the aim of holding financial assets to realize contractual cash flows (ibid.). Based on the requirement of the business model, financial assets are classified:

1. Amortized cost (AC)
2. Fair value through other comprehensive income (FVOCI)
3. Fair value through profit or loss (FVPL)

(BDO, 2017a)

The business model criteria decide which classification a financial asset is categorized to. The AC classification is applied if an asset fulfills two conditions, first, that the financial asset is kept with the goal to realize contractual cash flows. Secondly, that the agreement of the financial asset has a specified time limit on interest and repayments (Deloitte, 2019; BDO, 2017c). BDO (2017c) exemplifies four financial instruments that can be classified at AC. Trade receivables, loan receivables, investments in government bonds that are not held for trading and investments in term deposits at standard interest rates.

FVOCI is applicable if it meets the following criteria. First, the asset is held within a business model whose objective is attained by both holding the financial asset in order to collect contractual cash flows and selling the financial asset. Secondly, the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (BDO, 2017c). BDO (2017c) exemplifies that government or corporate bonds where the investment period is likely to be shorter than maturity could be classified as FVOCI. FVPL is applicable if a financial asset meets one of the three criteria. First, if it is held for trading, secondly, a debt instrument that does not qualify to be measured at AC or FVOCI. Third, an equity investment which the entity has not elected to classify as at FVOCI (ibid.). BDO (2017c) exemplifies that investments in shares of listed companies that the entity has not elected to account for as at FVOCI.
2.2.1 The Expected Credit Loss model

The impairment process changes with IFRS 9 as it introduces a forward-looking credit loss model. The rationale behind the ECL model is to accelerate credit loss recognition, which became a severe problem with IAS 39 in the financial crisis of 2008 (Frykström & Li, 2018). Figure 1 below illustrates how the impairment model under IFRS 9 significantly change the recognition of credit losses and allow for earlier loss allowances compared to the impairment process of IAS 39.

*Figure 1, Impairment processes. Source: Frykström & Li, 2018.*

The financial assets are classified into three stages under the ECL model. The first stage consists of “performing” assets, the second stage consists of “under-performing” assets, and the third stage consists of “impaired” or “defaulted” assets. During the initial recognition of a financial asset, the risk of the specific asset is measured and thereafter located in the first stage. The first stage of the impairment model further requires the appliers to forecast a 12-month prediction of loan losses of all assets in the recognized in the first stage (ibid.). To predict the future losses on assets in the first stage, macroeconomic variables, as unemployment- and GDP growth rates are used to calculate the expected losses. (Frykström & Li, 2018; PWC, 2017a). Mckinsey (2017) criticize the
models as they are sensitive to changes in different variables, and there are no guidelines on how to adjust the sensitivity of different variables. The sensitivity of the models that calculate the expected losses thus highly affect the outcome and increase the risk for inaccurate predictions.

The impairment rules force companies to evaluate the risk of their financial assets quarterly. When the assets are evaluated, they are thoroughly considered whether they have been subject to a “significant increase in risk” or not. If there has not been a significant change in risk of the asset, the asset remains in the first stage (KPMG, 2014). When there has been a significant change in risk in a financial asset, the asset is either placed in stage two or stage three. Stage two implies that the asset is “under-performing” and must thus be reclassified. The expected loss of such an asset must be calculated by the expected loss of the remaining lifetime of the asset. The value of the expected loss must, thereafter, be recognized immediately in the financial statements. (Frykström & Li, 2018). To be classified in stage three, the asset must be in default, and there is no recovery amount to be expected. The full amount of the financial asset is then impaired and recognized in the financial statements (ibid.).

IFRS 9 introduces flexibility and judgments as IFRS 9 do not define what a significant increase in risk is. Neither does it define what macroeconomic data to use or how it should be applied and used for future loss calculations. Banks further use different sensitivities in their models, which affect the proposed future ECL and might affect the accounting information quality (PWC, 2017b). Different banks might receive different outcomes based on the same macroeconomic information. Another criticism of IFRS 9 is that the judgment and the definition of a significant increase in risk are determined by the appliers and is therefore interpreted differently among banks (BDO, 2018). The increased flexibility and uncertainty have been criticized as it allows for misjudgments depending on how regulators respond to the new standard (Moody’s, 2016a). Moody’s (2016b) and EY (2017) further present their view on the implications of IFRS 9 and emphasis that it will lead to decreased comparability and transparency. As previously stated by Fiechter (2011), European banks have shown that they are keen on taking advantage when the opportunity is given.
2.3 Differences between IAS 39 and IFRS 9

IFRS 9 provide significant differences compared to IAS 39. The categories for classification are limited with IFRS 9 and the classification method is based on new business model requirements (Deloitte, 2019). IFRS 9 further introduce a forward-looking impairment model which significantly differs in contrast to the incurred loss model under IAS 39. Through the new impairment recognition method credit losses may be detected earlier which was not possible with IAS 39 (Frykström & Li, 2018). IFRS 9 further require a re-evaluation of financial assets at each reporting period, which leads to a stricter control and higher transparency in the financial reports. The nature of principle-based rules leaves further room for interpretations which might affect accounting quality (Frantz & Instefjord, 2018). IFRS 9, in contrast to IAS 39, introduces new complexity and flexibility which relies heavily on the appliers to determine the sensitivity in estimates when calculating future credit losses (KPMG, 2014).
Table 1, Differences between IAS 39 & IFRS 9. Based on Gornjak, 2017: 117).

<table>
<thead>
<tr>
<th>Category</th>
<th>IAS 39</th>
<th>IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamental</strong></td>
<td>Rule-based</td>
<td>Principal-based</td>
</tr>
<tr>
<td><strong>Measurement</strong></td>
<td>Fair value.</td>
<td>Amortized cost.</td>
</tr>
<tr>
<td></td>
<td>Amortized cost value.</td>
<td>Fair value through other comprehensive income.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fair value through profit or loss.</td>
</tr>
<tr>
<td><strong>Types of Classifications</strong></td>
<td>FVPL.</td>
<td>AC.</td>
</tr>
<tr>
<td></td>
<td>Held to maturity.</td>
<td>FVOCI.</td>
</tr>
<tr>
<td></td>
<td>Loans and receivables.</td>
<td>FVPL.</td>
</tr>
<tr>
<td></td>
<td>Available for sale.</td>
<td></td>
</tr>
<tr>
<td><strong>Reclassification</strong></td>
<td>Reclassification is prohibited through profit and loss after initial recognition.</td>
<td>Change of business model.</td>
</tr>
<tr>
<td></td>
<td>The fair value option (if it provides better relevance).</td>
<td></td>
</tr>
<tr>
<td><strong>Impairment</strong></td>
<td>Several models of impairment.</td>
<td>A unified model of impairment which applies to all financial instruments.</td>
</tr>
<tr>
<td></td>
<td>Incurred loss model.</td>
<td>ECL model.</td>
</tr>
</tbody>
</table>
3. Theoretical Framework

In the following chapter, the theoretical foundation is presented. The theoretical framework consists of the conceptual framework of accounting, which was developed by FASB and IASB.

3.1 The Conceptual Framework for Financial Reporting

FASB and IASB initiated the development of a conceptual framework for accounting already in the 1970s (IASB, 2010). The idea of a uniform accounting system had been on the mind of accountants for decades (ibid.). IFRS was developed as a framework for accounting. The framework was developed to provide guidelines on how to develop accounting standards to provide sufficient accounting information to different stakeholders (Deloitte, 2017; IASB, 2015). The framework further includes main objectives and qualitative characteristics that accounting standards should fulfill in order to increase decision-usefulness (IASB, 2010).

3.1.1 Decision-Usefulness

IASB state that the primary objective of financial reporting is to provide decision-useful accounting information to investors, lenders, and other creditors (IFRS Foundation, 2016; Belkaoui, 1991; Barth et al., 2001). This further includes the decisions of selling, buying, or holding equity (IASB, 2010). Furthermore, in order to fulfill the fundamental requirement of decision usefulness, the information needs to be relevant and reliable (ibid.). The purpose of accounting later changed to incorporate the ability to present a faithful representation of the corporation (IASB, 2010). In order to succeed with the purpose of the conceptual framework, qualitative characteristics were determined in order to fulfill the goal of the conceptual framework to provide high-quality accounting standards for better usefulness in decision making (IFRS, 2010). Sterling (1970) state that financial reporting is oriented and developed either to provide information to the decision makers who use financial reporting for decisions or for decision models that need specific input data. The quality of an accounting standard is of importance for equity analysts as they are highly dependent on the information in e.g., stock valuation and forecasting (Gassen & Schwedler, 2010; Breton & Taffler, 1995). As previously mentioned, analysts
are affected by the degree of complexity of accounting information and the importance of IFRS 9 should thus be evaluated regarding the qualitative characteristics of accounting.

Furthermore, the purpose of accounting is to decrease information asymmetry between the accounting entity and users of financial reporting (Evans, 2016; Akerlof, 1970; Stiglitz, 2000). According to IFRS (2010), there are fundamental aspects of accounting that needs to be fulfilled. Standards should have relevance and present a faithful representation of the reporting company. In order to enhance the quality of accounting, enhancing characteristics as comparability, verifiability, timeliness, and understandability are also considered (ibid.). Figure 2, illustrates an overview of the different characteristics of accounting standards. The specific characteristics are further explained in the sections below.

Figure 2, Characteristics of accounting. Source: Runeson et al., 2018; 115
3.1.2 Relevance

One of the two fundamental characteristics of accounting is relevance. The relevance aspect refers that accounting information cannot be useful if it is not relevant for its users (IASB, 2010). Accounting information is capable of being a deciding factor if it consists of predictive value, confirmatory value, or both. The predictive value of accounting information is intended for forecasting purposes, especially for the users to enable them to make their own predictions (ibid.). The relevance of accounting is thus crucial in the role of an equity analyst (Barker et al., 2012). Relevance is measured by its confirmatory role, which means that the information provided should confirm previous accounting figures (IASB, 2010). Both predictive and confirmatory values are interrelated as the predictive value often also has a confirmative value, e.g., the revenues of a current financial year may be used as a basis to predict future revenues. Information of predictive and confirmatory value is often linked together, and one does not exclude the other (IASB, 2010). Accounting information is relevant for equity and credit investors if it can make a difference in the decision process (Barker et al., 2012). For accounting information to be relevant, it also needs to be material which entails that changes or omitted information might affect decisions for users (ibid.).

One of the key fundamental aspects of accounting information is to deliver relevant information (IASB, 2010). If the information is not relevant, it has little to no meaning for the different stakeholders. The different stakeholders have various opinions on what is relevant.

3.1.3 Faithful representation

IASB and FASB introduced the term faithful representation in the conceptual framework of 2010. They stated that the main reasoning for the introduction of the term was that the previous term, reliability, lead to misunderstandings regarding the exactness and verifiability of the accounting information. (Pelger & Erb, 2015). IASB and FASB justified the replacement as a mere clarification of terminology, which they viewed as necessary due to a perceived diversity of understandings and misunderstandings of the term reliability (ibid.). Faithful representation, the second fundamental quality of accounting implies that financial reporting should represent the true underlying economic phenomena in order to be relevant for its users (Runesson et al., 2018). The development of the conceptual framework reveals that it is difficult and nearly impossible to implement.
accounting standards that are uniform and applicable to all different corporations (ibid.). IASB thus emphasizes that the accounting standards should provide flexibility to enhance the ability for corporations to use accounting principles that show an accurate picture of the firm (IASB, 2010). For accounting to picture a faithful view of a firm, the financial statements must therefore also fulfill the requirements of being “complete”, “free from error” and “neutral”.

The requirement of completeness entails that all necessary information must be available to enhance the understanding of an economic phenomenon for the user (ibid.). To fulfill the requirement of neutrality, the information should be free from bias, which includes the presentation and selection of financial information (ibid.). The term Free from error associated with faithful representation does not necessarily equal accuracy. The definition instead defines that there should be no errors regarding the description of the circumstances as well as the process used to produce the information. Neutrality of accounting information suggest that the fair value of an investment and the underlying valuation, for instance, should be free from earnings management. Earnings management can thus be a threat to neutrality and the reliability of financial information (Van Tendeloo & Vanstraelen, 2005). Earnings management means that earnings are managed with the intention of misleading stakeholders in the form of the company's results. (Healy & Wahlen, 1999). IASB also delivers a contrary interpretation of the aspect of neutrality, stating that financial statements by nature, are not neutral. The selection and presentation of accounting information influence the perception of the information, and if this is done intentionally to achieve a predetermined result, then the financial statements are not neutral (IASB, 2015). Solomons (1986) stated that what seems to be reliable information for one party is insufficient information for another. The goal of faithful representation, therefore, encompasses the necessity to create standards that increase faithful representation and decision-usefulness for each user (Pelger & Erb, 2015).

3.1.4 Trade-off between Relevance and Faithful representation

In order to provide accounting information with high quality, the characteristics of relevance and faithful representation are necessary to consider. The two aspects are affected by the construction of the accounting standards (Soderstrom and Sun, 2007). The use of fair values decreases the quality of faithful representation but provide more relevant information at the same time (Runesson et al., 2018). FASB (2018) state that it
might be necessary to focus on one of the fundamental qualities at the expense of the other to provide more useful information. Although one of the fundamental qualities should not be replaced by another, there exists a trade-off between the two (FASB, 2018).

The trade-off has been discussed since the 1980s and Whittington (1989) state that the fundamental qualities are opposing to each other. Analysts make their assumptions and forecasts of firms and must, therefore, be able to rely on the information provided but in the same time not instinctively accepting every information that is presented (Barker et al., 2012). If the accounting information is not presented in a faithful manner, it will not lead to improvements in terms of decision usefulness.

Recent accounting standards have provided more emphasis on the quality of relevance rather than faithful representation (Schondube-Pirchegger et al., 2017). IASB attaches great importance in providing investors with relevant information to help their decision-making process (ibid.). To provide more relevant information, fair values are a crucial factor. Schondube-Pirchegger et al. (2017), however, states that there is no clear evidence that increased relevance at the expense of faithful representation would make the financial reports more useful from an investor's user perspective. It, therefore, exists a dilemma and a trade-off between the fundamental qualities of relevance and faithful representation (Pelger & Erb, 2015).

3.1.5 Comparability

Comparability is regarded as an enhancing characteristic of accounting quality (IASB, 2010). In order to fulfill the requirement of comparability, the accounting information must be comparable to the information of similar corporations (ibid.). The information should be comparable over time within and externally but do not need to meet the requirement of uniformity across different corporations in other sectors (Runesson et al., 2018). Users of financial statements should be able to evaluate the financial performance over time (IASB, 2010). Equity analysts use financial statements in buy, hold or sell recommendations, and the decision-usefulness of accounting information thus increases if the information is comparable to other entities. Since analysts often must compare firms against each other to provide comparable ratios, the information must also be comparable (ibid.). However, the accounting information that is provided is often unique and presented in the manner of how the firms have chosen to interpret the various accounting rules (ibid.). Chen et al. (2002) found a correlation between higher complexity and less
accurate forecasting of analysts, this could imply that if the comparability is low between firms, the complexity rises.

3.1.6 Verifiability

The second enhancing characteristic is that accounting information should be verifiable and be based on real economic events (IASB, 2010). Financial information is considered verifiable if independent and dependent individuals can reach the same conclusion about an accounting event (ibid.). Disclosures might be necessary in order to increase verifiability, and the aspect of time might need to be considered (Runesson et al., 2018). To be able to verify the information provided, analysts must often make a trade-off between trusting the information provided and the time spent verifying it (IASB, 2010). Blindly following the information provided can have enormous consequences for all stakeholders. Therefore, the information must be verifiable to a certain degree (ibid.).

3.1.7 Timeliness

The third enhancing characteristic of accounting is timeliness. The financial information must be available for users in a timely manner so that it can be taken into consideration in decision-making, including the decision to buy, hold or sell a stock (IASB, 2010). Timeliness also correlates to the time aspect that the older the information is, the less useful it is for decisions (Runesson et al., 2018). However, old information might provide predictable data, which still makes the information useful in forecasting purposes (IASB, 2010).

3.1.8 Understandability

The fourth and last enhancing characteristics of accounting is understandability (IASB, 2015). In order to fulfill the understandability criteria, accounting information should be clear and concise and thus enhance the understandability and usefulness to users of the information (ibid.). It should further be characterized and classified. The information should be presented so that a person with basic financial knowledge understand the concept (ibid.). Sometimes accounting information can be complex, and the user is then urged to seek expertise about the complex economic phenomena in order to understand the substance to be able to make well-informed decisions (ibid.). The risk of simplifying accounting information too much is that the information becomes incomplete and
misleading for its users (Runesson et al., 2018). Analysts are often required to interpret the various information provided and make their own reflections on the underlying information (Beaver, 2002). If the information provided is not presented in a way that can be useful, there is little need for it.
4. Methodology

In the following chapter, the methodology of the study is presented. The chapter contains descriptions of the research design, process, generalisability, validity, and reliability. This is followed by the process surrounding the survey and the ethical aspects chosen.

4.1 Research design

The study is based on a deductive approach, which means that the starting point is derived from previous theory within the area of accounting quality. The research approach is also of a quantitative nature and has been carried out with the help of an internet-based survey. A quantitative method is especially suited when a larger population is desired to be reached compared to a qualitative method (Bryman & Bell, 2011). A quantitative method is further associated with a deductive approach that allows the chosen theory to form the basis for the data collection process (ibid.). The study does therefore not contribute more than through the questions asked (ibid.).

4.1.1 Research procedure

Empirical data has been obtained with the ambition to reveal what implications IFRS 9 has on equity analysts. A survey study is suitable to discover patterns, correlations, and reach out to a larger population (Bryman & Bell, 2011). Quantitative research can be regarded as a research method that emphasizes the quantification of empirical data (ibid.). Surveys do not cause an interviewer effect that can affect the respondents (Bryman & Bell, 2011). The respondent's tendency to give a positive picture of themselves can then be neutralized. Respondents have been assigned anonymity, which can help neutralize the social desirability of respondents (ibid.). We distributed the survey directly to the respondents' email at their work, but the uncertainty about who is participating still exists. Furthermore, surveys imply flexibility in that the respondents can respond when it suits themselves, compared to an interview process (ibid.). However, there is a limitation to a questionnaire study of quantitative nature. A significant criticism concerns the lack of depth of the phenomenon being investigated, compared to a qualitative method. Through several elaborative questions, the respondents will have the opportunity to elaborate their
view on the matter (ibid.). A limitation with the survey is the interpretation around the questions, compared to interviews, no interviewee can explain the questions to the respondents if interpretation difficulties arise (ibid.).

4.1.2 Survey construction

The survey consists of 35 questions, divided into two parts; background information and conceptual framework. Four questions regarded the background information about the respondents, and 31 questions concerned the conceptual framework. A few questions were of a reverse nature, which means that the respondent had to carefully read the question before answering (Bryman & Bell, 2011). The response alternatives were compiled on a five-degree scale. When choosing this measuring, the Central Statistical Office's (2001) recommendation has been the basis for the interval scale in the form of a Likert scale. This to reduce the demands on the respondents to motivate the answers. The scale consisted of the alternatives "strongly agree" to "strongly disagree", where the first answer indicates that the respondent recognized themselves in the statement while the other means that the respondent did not at all recognize themselves in the statement. The response alternatives were thus coded based on values between 1 and 5. Where 1 meant "strongly disagree", and 5 "strongly agree".

   1. Strongly disagree
   2. Disagree
   3. Neutral
   4. Agree
   5. Strongly agree

A conscious choice was made in placing the questions about the background information before the questions regarding the conceptual framework (Trost, 2007). However, we cannot guarantee that this limited the respondents to be controlled by these variables.

4.1.3 Operationalization of variables

Each part of the conceptual framework has been conceptualized by several questions, where each category further incorporates an elaborative question to capture the respondent's opinion. With the guidance of previous literature and theory, an operationalization process of the questions has been developed in the appendix (Appendix 9.1). One of the limitations in designing surveys is that it is not possible to adjust after
the survey has been activated. The answers received are solely based on what we have asked for, and nothing beyond that (Eliasson, 2006). This emphasizes the importance of carefully designed questions that should be included in the survey. The purpose of the thesis guided the development of the survey. The formulations of the questions were based on the conceptual framework identified in previous theory and literature, with adjustments to the focus on the implications of IFRS 9 for equity analysts.

The questions that have been formulated to the survey are attached in the appendix (Appendix 9.2).

4.1.4 Pilot Survey

A pilot study of the survey was conducted to reduce the margin of error around the survey regarding formulations, carelessness, ambiguities, the complexity of the questions, and uncertainties. By doing a pilot study, some of the error margins for the response rate was eliminated, and feedback could be given, which made the survey clearer. This is particularly important, according to Bryman and Bell (2011), since the respondents are not able to ask about uncertainty regarding the survey. As a result of the feedback from the pilot study, certain statements were changed and made more apparent to the respondents. Such as the age interval, from zero to four years, was changed to more than one to four years.

4.2. Data selection

Respondents were selected based on publicly available information of analyst coverage disclosed on the websites of the 50 largest publicly listed banks in Europe (by total assets according to S&P, 2017). In order to contact the respondents and distribute the survey, a selection of comfort was made. This implicate that the sample has been made based on the respondents who were available (Bryman & Bell, 2011). A problem that occurs with the selection of comfort is the difficulty of generalizing the result. The problem that arises is that no one can know if the same result would have been achieved in another sample of selection (ibid). The sample of accessible equity analysts, covering the 50 largest banks in Europe, however, encompass a substantial sample of equity analyst with expert knowledge regarding IFRS 9.
The survey was sent out to 145 equity analysts. The study's empirical evidence consisted of 23 answers, which is below an acceptable level in order to perform a statistical relevance for the questions. No internal failure was occurred on the 23 answers. Furthermore, it can be discussed whether the loss had been less if the survey had been active for a more extended period. One issue that we became aware of was that the survey was denied access due to internet and compliance restrictions through some corporate computers. Four respondents contacted us regarding the issue. In order to make respondents aware of the issue, we addressed the problem in a reminder and asked the respondents with restriction problems to try from another device or home.

4.3 Data collection

The collection of data for the study was initiated on April 29, 2019 and the survey was thereafter open until May 27, 2019. The respondents received a preparatory mail in advance, with information about the survey and the purpose of the thesis. When the survey was sent out, the purpose and intention of the survey was clarified again. The mail further explained why the respondents had been contacted, the survey design, who the authors were, and what ethical research principles that were taken into consideration. The mail further contained an expected time needed to complete the survey. The survey was sent out using our student mail, which enabled respondents to raise potential questions and concerns directly to us. Ultimately, we ensured that the mail addresses contained no cross-postings.

4.3.1 Data management

The survey was designed through the Google Forms program, which is a free online service. The program made it possible to design the survey according to our requirements. This made it possible for a design that the respondents could find interesting (Bryman & Bell, 2011). After the results were compiled and presented in the study, all answers were deleted.

The data obtained from the survey was exported to the program Excel. Through Excel, the response options for the statements were coded from 1 to 5. The processed material in Excel was, in turn, exported to the statistical program SPSS (Statistical Package for the
Social Science). The surveys response was presented using the total number, average value, and standard deviation. Which, in turn, was compiled in results and findings. For a higher validity, the data was handled thoughtfully, to limit potential systematic errors (ibid.). The elaborative questions were organized through a coding scheme (Appendix 9.2.1), where we identified themes for each qualitative characteristic of accounting. The most common themes were addressed in order to facilitate the analysis process.

4.3.2 Drop-out

According to Bryman and Bell (2011), it is crucial to analyse the drop-out in a study, especially in surveys that usually have a high drop-out rate. If a significant loss has occurred, the risk of a skewness may increase. This means that there may be differences between those who chose to respond and those who did not choose to respond without knowing it. This further implicate that we must be aware of the limitations that a low response rate implies (ibid). Bryman and Bell (2011) however, argues that if a selection of comfort has been made, a low response rate is of lesser weight, compared to other selection methods. As we reached out to the equity analysts with our survey, four respondents informed us that they were unable to participate due to compliance reasons of their companies. This might explain a portion of the non-respondents of the survey. However, this is not clear since only four participants informed us, and we did not come upon this problem during the pilot survey. Furthermore, 14 addresses were inactive. As 23 respondents participated in the survey, they constitute a response rate of 18% based on the total active sample of 131 email addresses.

4.4 Generalisability

Since the study's selection has been made through a selection of comfort, reaching out to accessible equity analysts covering the 50 largest banks in Europe, the result cannot be generalized to a larger population (Bryman & Bell, 2011). Despite the study's comfort selection, the empirical results can contribute to a discussion about the implications of IFRS 9 for equity analysts of the European banking industry. IFRS 9 is further applicable in many countries, which do not exclude the possibility that the result could be similar in other geographic areas. This is, however, nothing that undoubtedly can be said with this study.
4.5 Validity and Reliability

Validity is based on an assessment of whether the conclusions generated from an investigation are linked or not (Bryman & Bell, 2011). This study focus on the implications of IFRS 9 for equity analysts. To measure this reliably, the purpose, research question and theory has guided the survey.

Bryman and Bell (2011: 49) define reliability as "whether the results of an investigation are the same if the study is re-executed, or if they are affected by random or temporary conditions". This means that good reliability of the study is reliable, and the respondents' response is reliable. As far as the reliability of this study is concerned, the drop-out was mainly unfavourable. In order to counteract the effects of systematic errors, a meticulous focus has been put on the management of empirical data. Data from the survey was coded and double-checked for each conversion process and saved on cloud services to minimize potential losses of data. If the study were to be replicated, it could be discussed whether the drop-out rate would be different. Given the response rate of 18%, there is no guarantee that replication would mean the same response.

4.6 Ethical considerations

The study has been carried out with principles of research ethics in mind. Five areas that have been concerned are; the information requirement, the consent requirement, the confidentiality requirement, the use requirement, and false pretences. These requirements handle the personal protection of the respondents who participated in the survey. The information requirement means that the respondents must have been informed about the purpose of the survey and its parts (Bryman & Bell, 2011). This was announced together with the preparatory e-mail which was sent out to the respective respondents' e-mail addresses. The consent requirement means that the respondents could refrain from participating in the survey and had been informed about it via the preparatory e-mail. The confidentiality and anonymity requirement mean that all information about the respondents was treated with the highest possible confidentiality and kept completely safe. This has been appalled by keeping the respondent's anonymity throughout the entire survey process. The use requirement mean that the information collected was not used for anything other than the research purpose. The information obtained through the survey
have also been deleted after the study's publication. False predictions mean that the researchers have not given the respondents false hopes about the purpose or in any way misleading the respondents about the study (Bryman & Bell, 2011). We were throughout the process consistent towards the respondents with information about the purpose of the survey.
5. Results and findings

The results of the survey are presented in the section below. First, through a descriptive statistic, to get an overview of the respondents. It is then followed by the findings of the survey, the elaborate questions and the themes identified for the qualitative characteristic.

5.1 Descriptive statistics

The descriptive statistics is presented with an overview of the gathered data. Through frequency, percentages, and standard deviation, the tables below present the gathered data in a structured manner.

5.1.1 Gender

23 respondents participated in the survey. Among the respondents, 6 were female and 17 were male.

*Table 2: Gender.*

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>6</td>
<td>26,1</td>
</tr>
<tr>
<td>Male</td>
<td>17</td>
<td>73,9</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>

5.1.2 Age

Table 3 present the age distribution of the respondents. We see that most of the respondents are between the age of 30 and 50.

*Table 3: Age representation of respondents.*

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-30 years</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>31-40 years</td>
<td>9</td>
<td>39,1</td>
</tr>
<tr>
<td>41-50 years</td>
<td>10</td>
<td>43,5</td>
</tr>
<tr>
<td>51-60 years</td>
<td>1</td>
<td>4,4</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>
5.1.3 Years working with equity research

Table 4 present the professional experience of the respondents within the field of equity analyst. The results show that most of the respondents have worked with equity research for at least 5 years.

*Table 4: Years as an analyst.*

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 years</td>
<td>5</td>
<td>21.7</td>
</tr>
<tr>
<td>5-9 years</td>
<td>8</td>
<td>34.8</td>
</tr>
<tr>
<td>10+ years</td>
<td>10</td>
<td>43.5</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>

5.1.4 Years working with research of the Banking industry

Table 5 present the respondents’ experience specifically related to equity research of the banking industry. We see that a majority of the respondents have spent at least 5 years in research of the banking industry. The respondents can thus be assumed to have in-depth knowledge of the industry.

*Table 5: Years analysing banks.*

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 years</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>5-9 years</td>
<td>11</td>
<td>47.8</td>
</tr>
<tr>
<td>10+ years</td>
<td>9</td>
<td>39.2</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>
5.1.5 Results from the Survey

Table 6 presents a summarizing table of the results from the survey. The scores are shown in the same order as the conceptual framework but presented in text from highest to lowest averages. 5= Strongly agree, 1= Strongly disagree.

*Table 6: Summary of results.*

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Number</th>
<th>Average</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision-usefulness</td>
<td>23</td>
<td>4.57</td>
<td>0.86</td>
</tr>
<tr>
<td>Relevance</td>
<td>23</td>
<td>3.09</td>
<td>1.10</td>
</tr>
<tr>
<td>Faithful representation</td>
<td>23</td>
<td>2.73</td>
<td>1.00</td>
</tr>
<tr>
<td>Comparability</td>
<td>23</td>
<td>2.78</td>
<td>0.98</td>
</tr>
<tr>
<td>Verifiability</td>
<td>23</td>
<td>2.19</td>
<td>1.03</td>
</tr>
<tr>
<td>Timeliness</td>
<td>23</td>
<td>3.45</td>
<td>0.71</td>
</tr>
<tr>
<td>Understandability</td>
<td>23</td>
<td>3.34</td>
<td>0.92</td>
</tr>
</tbody>
</table>

The result showed that decision-usefulness was the category with the highest average (4.57), analysts strongly agree that accounting information, in general, is important for equity analysis. Within decision-usefulness, the question *I regularly use accounting information* had the highest average (4.70). The category timeliness had the second highest average (3.45), which indicate that the respondents find IFRS 9 to be of a timely character. The question *I find the IFRS 9 information in annual and quarterly reports to be up to date when released* had the highest average (3.65). Understandability was the category with the third highest average (3.34), where the question *I understand how credit loss recognition is conducted with the Expected Credit Loss model* had the highest average (3.70). The relevance category had an average of (3.09) where the question *IFRS 9 provides useful information for me as an analyst* had the highest average (3.96), which indicate that the respondents agree with the statement. The predictive and confirmatory aspects of IFRS 9 receives lower scores, (3.17) and (2.35). The comparability category
had an average of (2,78) where the question *IFRS 9 has decreased the comparability between banks had the highest average* (3,11). Faithful representation had an average of (2,72) where the question *I find that IFRS 9 present a true and fair picture of banks* had the highest average (3,00). The three aspects of faithful representation, completeness (*I consider the information from the ECL model to be complete and consistent*) score of (2,65), neutrality (*I find the information from IFRS 9 to be neutral and objective*) score of (2,96) and free from error (*The forward looking-information from the ECL model is accurate and free from error*) score (2,65). Verifiability had the lowest average (2,19), where the question *The disclosures under IFRS 9 provides sufficient information* had the highest average (2,39).

5.2 Results from the elaborative questions

The elaborative questions provided an opportunity for the respondents to further elaborate on the implications of IFRS 9. Below we present the main findings and thereafter, a summary in figure 4 with the identified themes.

5.2.1 Relevance

The main themes from the elaborative question *Has IFRS 9 affected your view on the banking industry?* Is that IFRS 9 require more time in order to reveal changes, that it does not affect the viewpoint of banks and that it does not affect the risk of the credit cycle. Respondents answer:

*Not at this stage. But too soon to have a definite view*

*Not at all... Loan impairment charges are super low any regardless... We do not see the effect until shit hits the fan...*

*No... at the end of the day it is only supposed to change the shape of the credit cycle for the banks, not the actual over the cycle risk profile of the banks, which is what really matters in my view*

(Appendix, 9.2.1)
5.2.2 Faithful representation

The main themes from the elaborative question *What (if any) are the greatest challenges for analysts to take in consideration regarding IFRS 9?* is that the information provided by IFRS 9 require more time in order to increase knowledge. It is also not clear that all banks use the same methods, which affects the comparison. Respondents also highlight the lower relevance today as well as subjectivity in the measures of the ECL model.

*It’s still new to us as well so it takes time to get a sense for how movements occur from quarter to quarter and to reconcile it with the old impaired loans practice. For some banks there is also somewhat of an “information overload” on IFRS 9 that tends to drown out the real underlying movements.*

*It is not clear to me that all banks use the same methodology to classify loans as stage 2 as they can rebut the 30 days past due rule. Fundamentally we have no way to gauge externally what the impact of different GDP assumptions and other inputs will be. We don't even know how often banks need to review assumptions. Standardised sensitivity tables would help.*

*To compare assumptions between banks. Hard to understand what basic economic scenarios are being used and when a bank will change this and how ill this impact provision levels.*

*IFRS9 is not that important, and credit losses is just a small part of the income statement. You don’t spend too much time on it.*

*Not much really. Nothing has really changed with IFRS9. Expected loss is still just at subjective as it was before. The different IFRS9 levels across the European sector demonstrates this well.*

(Appendix, 9.2.2)

5.2.3 Comparability

The main themes from the elaborative question *How has the comparability between banks been affected by IFRS 9, and how does it affect you as an analyst* is that analysts need more time to evaluate the standard. Other themes that are highlighted are difficulties in comparability and increased complexity but also that IFRS 9 has not affected comparability.
So far not but next downturn will make differences hopefully more clear

Too much complexity makes comparability scarce

It was intended to increase comparability cross border - not many signs that this has been successful

Not all banks are fully transparent about the assumptions they make and the parameters that go into the model, so it's hard to compare apples to apples

Comparability has always been hard... No, it has not affected

To the worse, but it doesn't affect me

(Appendix, 9.2.3)

5.2.4 Verifiability

The main themes from the elaborative question Has the increased information with IFRS 9 changed your research process of evaluating the risk in banks is that the information provided by IFRS 9 require more time in order to be evaluated. It is further complicated, and the importance of the standard is limited due to its recent implementation. It is also not clear that all banks use the same methods, which affects the comparison.

Not yet as I want to see it in "action" for a few more quarters first. So far I've seen very little change in provision levels for banks despite the "consensus" being that loss ratios would increase a lot ahead of implementation. I think many banks are still adjusting their models and learning as they go

Not at this moment, the standard and disclosures are too new to change my opinion

Yes, limited historical data (reporting) under IFRS 9 makes futures estimates harder

No, it has made it too complex

(Appendix, 9.2.4)
5.2.5 Timeliness

The two main themes from the elaborative question *Are there any challenges when using forward-looking data as an analyst?* is the complexity and trustworthiness of the underlying assumptions in the forecasting models which constitute problems for the respondents.

*The macro variables that the banks use are not entirely clear*

*It creates more volatility as small changes to customer behaviour or input variables can have an outsized effect, especially in Stage 1 and Stage 2 lending. Primarily an issue on unsecured lending where behavioural effects and flow between the stages has a bigger impact*

*Many, I could go on all day. In the end of the day, the banks apply ECL models on their own prop data, meaning they will get whatever they want*

*Yes not always clear what assumptions are*

(Appendix, 9.2.5)

5.2.6 Understandability

The main themes from the elaborative question *Are there parts that are more difficult to understand with IFRS 9? What is challenging as an analyst is that IFRS 9 requires more time, the comparison is difficult, the general complexity and the different interpretations of a significant increase in risk.*

*There is no best practice yet, banks use different thresholds and definitions in their expected credit loss models and disclosure levels vary a lot. Some banks give a lot of information that is useful, others disclose a lot less. I also get a sense that many of the banks don't understand it fully themselves, especially when it comes to seasonal effects that might impact ECL levels in a given quarter*

*IFRS 9 is not comparable between companies*

*IFRS 9 is fairly new and based on disclosed data so far, you cannot conclude any reliable future trends. Companies themselves are cautious when discussing trends*
as the standards are fairly new to them. The levels of disclosures are standard and difficult to read into them. However, management teams of most companies have been helpful with navigating through the information

Banks need to provide sensitivities of provisions to changes in input variables for analysts to make sense of the models

Risk costs become more cyclical. Hard to understand what scenarios banks use, hence when/in what scenarios will their assumptions change

Significant increase in risk is BS.. All banks have different views on it...

(Appendix, 9.2.6)

5.2.7 Themes recognized from the elaborative questions

The answers from the elaborative questions were organized and coded into themes. The most common themes recognized were **Time aspect, Comparison, and Complexity**. Figure 4 presents the main themes found under the respective elaborative question about the qualitative characteristic. The specific answers from the respondents and the reasoning for the themes is furthermore attached in the appendix (Appendix 9.2.1). Although several themes were identified, most of them originated from the time aspect. The time aspect was identified in five of the six qualitative characteristics of accounting. Only timeliness was excluded from this theme. The recent implementation of IFRS 9 has made it difficult for the respondents to compare information between the banks.

Furthermore, the recent implementation has led to a complexity issue where the respondent has difficulties in understanding the underlying assumptions that the banks use. The implication of comparison and complexity for the respondents seems to be derived from the time aspect. The respondents stated that many of the uncertainties in comparison and complexity would likely disappear with time.
Figure 4. Theme Coding.
6. Analysis

Based on the findings identified in the last chapter, the results and themes are analysed with previous literature and the chosen theoretical framework. The research question, *What implications does the IFRS 9 have for equity analysts* has been used as guidance.

6.1 Analysis of results

One of the fundamental and essential objectives of accounting is to deliver relevant and purposeful information to users in order to predict and present future company value FASB (2006). The results indicate that general accounting information, unsurprisingly, is useful for equity analysts. This is according to previous findings (IFRS Foundation, 2016; Belkaoui, 1991; Barth et al., 2001; IASB 2010). The conceptual framework and the qualitative characteristics of accounting are used in order to develop high-quality accounting standards (IASB, 2010). From the perspective of the conceptual framework, the results indicate that the qualitative characteristics of IFRS 9 are fulfilled to different degrees. The question *IFRS 9 provides useful information for me as an analyst* scored a high average of (3.96). However, respondents are thereafter conflicted about the usefulness of IFRS 9.

According to Whittington (1989) the decision-usefulness of accounting information is followed by a trade-off between relevance and faithful representation. This trade-off is indicated by the respondent’s answers to the elaborative questions when it comes to the ECL model. Respondents find IFRS 9 to provide relevant and useful information but do not rely on the faithful representation of the information. Schondube-Pirchegger et al. (2017) stated that in recent years, the accounting standards had an increased focus on the fundamental quality of relevance rather than faithful representation. This results in an increase in flexibility for the banks. However, it also increases the complexity for equity analysts regarding their assessment of the banks. The implications for the respondents are mainly derived from the ECL model. The model provides useful information by providing the banks with the necessary tools to recognize impairments earlier than under IAS 39. However, the respondents face issues in the reliability of the bank’s assumptions in the impairment process.
Respondents face implications, mainly emanating from the three main themes recognized from the elaborative questions, the time aspect, comparison, and complexity. Barker et al. (2012) state that accounting information is relevant for equity and credit investors if it can make a difference in the decision process. IFRS 9 did not change the respondent's outlook of the banking industry. The reason behind this could be derived from the time aspect that IFRS 9 is recently implemented and have not yet been thoroughly evaluated. Furthermore, the current economic climate for European banks, with low credit losses, leads to low attention of IFRS 9 from the respondents. The respondents emphasized that the effects of IFRS 9 would be visible first during an economic downturn. Since other respondents implied that IFRS 9 was not their most significant concern in valuating banks, the current economic outlook could be an explanation for their indifference of IFRS 9.

Let's get a downturn - then we can see the real value of IFRS9. Up until the international comparison has not really changed as one naively could have hoped for - just like with most other accounting changes.

(Appendix, 9.2.2)

The respondents find IFRS 9 to provide relevant and useful information, however, maybe at the expense of faithful representation. The aspect that the true underlying economic phenomena should be captured in order to be relevant for its users (facilitate the process of e.g., stock valuation) is vital for fulfilling the qualitative characteristic of faithful representation (IFRS, 2018: Christensen et al., 2016). IFRS 9, in contrast to IAS 39, introduces new complexity and flexibility in terms of the application of calculating future credit losses with sensitivities of different variables (KPMG, 2014). Mckinsey (2017) criticize the models as they are sensitive to changes in the different variables, and there are no guidelines on how to adjust the sensitivity of different variables. According to our results, the ECL model provides significant problems in terms of capturing the true underlying economic phenomena, and respondents disclose critique towards the banks’ own ability to estimate the assumptions for the ECL model. The sensitivity of the models profoundly affects the outcome and increase the risk of inaccurate predictions. The principle-based approach of IFRS 9 has probably led banks to use different sensitivities in their models, which affect the proposed future losses. The differences could be
explained by the time aspect, as suggested by the respondents. Another criticism from the respondents, which is in line with BDO (2018), is that the judgment and definition of a significant increase in risk are determined by the banks and is therefore interpreted differently. This could be a sign of the trade-off between relevance and faithful representation. Significant increase in risk emphasizes the aspect of relevance as it allows for an earlier loss recognition. However, the accounting information comes at the expense of faithful representation. The respondents state this as they have difficulties in understanding the underlying assumptions and definitions that the banks use.

_In the end of the day, the banks, apply ECL models on their own prop data, meaning they will get whatever they want_  
(Appendix, 9.2.5)

Franz and Instefjord (2018) emphasize that interpretations might affect accounting quality. IAS 39 was heavily criticized for being too complicated (Barth, 2010), but in terms of the future credit risks, complexity still exists with IFRS 9. The increased flexibility and uncertainty, as criticized by Moody’s (2016a), could be a reason for the implications that the respondents faced with banks reporting differently. The result that the European banks seem to adapt to IFRS 9 differently suggests that the flexibility of IFRS 9 provide uncertainty.

According to IASB (2010), verifiability of financial statements is also important in resolving uncertainties and therefore plays a vital role in forecasting future earnings. Biddle & Ricks (1988), Bernard & Thomas (1990) and Kim & Schroeder (1990) found that equity analysts fail to incorporate all available information in their earnings forecasts. The information from IFRS 9 cannot be easily verified, and the respondents find the disclosures to be insufficient. A possibility that the lack of verifiability can lead to wrong interpretations as suggested by Lachmann et al. (2011). The respondents do not find that IFRS 9 changes their view of the banking industry, and neither their stock predictions. Nevertheless, they find the accounting information to be complex, and the lack of verifiability may lead to wrong interpretations. The possibility exists that the respondents have made wrong interpretations, given the information provided. Although, that is not identified through our findings.
“There is no best practice yet, banks use different thresholds and definitions in their expected credit loss models and disclosure levels vary a lot. Some banks give a lot of information that is useful, others disclose a lot less. I also get a sense that many of the banks don't understand it fully themselves, especially when it comes to seasonal effects that might impact ECL levels in a given quarter

(Appendix, 9.2.6)

Chen et al. (2002) found a correlation between higher complexity and less accurate forecasting. Kaburek (2016) further states that the prime argument for rule-based standards is that in their absence, there will be a lack of comparability. Our results indicate tendencies of low comparability and high complexity. Barth et al. (2001) and Beaver (2002) find that analysts themselves might develop sophisticated tools to forecast economic events in the absence of information. The result shows no indications that the respondents have been required to change their valuation process with sophisticated tools to adjust to the high complexity in the accounting information provided by IFRS 9. An explanation could be that the levels of credit losses are too low to affect stock prices, and the credit losses are thus not that important for equity analysts.

IFRS9 is not that important, and credit losses is just a small part of the income statement. You don't spend too much time on it

(Appendix 9.2.2)

The low score of 2.22 (disagree) to the question IFRS 9 provides information that is useful for forecasting stock prices further illustrate the limited impact of IFRS 9. The respondents emphasize the complexity of IFRS 9. It is, however, uncertain if the complexity of IFRS 9 is derived solely from the recent implementation or if the accounting standard is complex by nature.

An issue with the predecessor IAS 39, was that a decline in value could be defined differently among banks. As appliers must be consistent in their financial reporting, this produced different outcomes (Gornjak 2017; Huian 2012). The issue of consistency still exists with IFRS 9, which affects the aspect of comparability. Kaburek (2016) emphasize how abstract principles might increase problems of comparability, and that principle-
based approaches might lead to higher complexity and increase difficulties of applying new accounting standards. According to IASB (2010), the accounting information should be comparable to the information of similar corporations. Our results indicate that the requirement of comparability is unfulfilled. The implementation process and the flexibility of IFRS 9 have affected the comparison between banks to a high degree.

_Not all banks are fully transparent about the assumptions they make and the parameters that go into the model, so it's hard to compare apples to apples_

(Appendix 9.2.3)

The comparability issue encompasses implications for the respondents. The accounting information from IFRS 9 generates new data sets, which enhances the implications. The respondents have furthermore difficulties in understanding the term significant increase in risk. This is further in line with the opinion of BDO (2018) that it does not exist a consensus around the term. One concern emanates in the fact that banks do not provide disclosures of the assumptions in the models for calculating expected credit losses. This leads to low comparability that further enhances the complexity of IFRS 9. The respondents believe that the issues with comparability and complexity will be solved with time. From our result, it is not possible to predict if time will solve this problem. Hopefully, the level of consensus will increase between the equity analysts and the European banks.

_Let's get a downturn - then we can see the real value of IFRS9. Up until the international comparison has not really changed as one naively could have hoped for - just like with most other accounting changes_

(Appendix 9.2.2)
7. Conclusion

The purpose of this thesis has been to reveal the possible implications of IFRS 9 for equity analysts through the characteristics of accounting quality. Our research question, *What implications does IFRS 9 have for equity analysts* has been used as guidance throughout the process. The survey, reaching out to accessible equity analysts covering European banks, has resulted in the following conclusions. We conclude that the respondents in our survey do find IFRS 9 to provide relevant and useful information. However, there exist multiple issues with IFRS 9, which provide implications for equity analysts. From the debated trade-off between relevance and faithful representation, we can see that IFRS 9, today, provides relevance at the expense of faithful representation. The principle-based approach of IFRS 9 is associated with high flexibility. The flexibility that emanates from not defining a significant increase in risk and the flexibility provided to the banks leads to different sensitivities in the banks impairment models. This provides implications for the respondents in terms of low faithful representation.

The perceived issues of faithful representation relate to complexities about the ECL model. IFRS 9 provides limited insights about the assumptions made to variables and macroeconomic scenarios chosen for the calculation of future credit losses. The uncertainty of the underlying calculations to predict future losses compose a severe implication for the respondents. However, impairment levels construct a small part of the financial statements of banks and are therefore not that important for stock valuation.

The main themes recognized is the Time aspect, Comparison, and Complexity. The main issues addressed are derived from that more time is needed for equity analysts to grasp the implications of IFRS 9. It is uncertain if the complexity of IFRS 9 is derived because of its recent implementation and thus will take time to settle, or if IFRS 9 is a complex accounting standard by nature. The complexity of IFRS 9 entail difficulties of comparability within and between banks. The standard comes with new sets of data, which makes comparison over time severe. Furthermore, the complexity and flexibility of the standard lead to implications in comparing banks. However, respondents anticipate that the issues of comparability might be resolved with time.

Even though IFRS 9 provides implications for the respondents, the current economic climate, with low impairment levels, could lead to low attention of the accounting standard. The respondents indicate that they do not spend too much time on the
impairment levels in their valuation processes. In order to fully evaluate the implications, IFRS 9, therefore, needs to be evaluated during an economic downturn to reveal the real implications of the ECL model.

7.1 Theoretical contribution

This thesis contributes to the existing research about the relationship between accounting and equity analysts. Our approach to the area distinguishes itself from earlier research as it focuses directly on the implications of IFRS 9. Furthermore, the changes in IFRS 9 exemplifies implications in transitions from rule-based standards towards principle-based standards. The thesis further contributes to the tendencies of evidence to the trade-off between relevance and faithful representation. The theoretical contribution of this thesis might, however, be limited due to the chosen methodology and the selection of comfort which have affected the generalisability. A larger sample would, for example, have provided statistical evidence and therefore increased the theoretical contribution. However, there has previously been a few examples of how to conceptualize the implications of new accounting standards for equity analysts. The thesis, therefore, contributes to indications of the importance of the conceptual framework and what aspects of qualitative characteristics that might be jeopardized with new accounting standards. The thesis further distinguishes itself as it provides a perspective on the implications that equity analysts face with the accounting quality of IFRS 9, which is necessary to address at an early stage of the standard.

7.2 Proposed future research

The field of research about the relationship between accounting quality and equity analysts has not been well researched in the past. Future research, therefore, encompasses multiple opportunities for investigation. An increased focus on what types of accounting information that increases decision-usefulness among equity analysts could be of interest. Furthermore, the transition to an increased flexibility with the principle-based approach and the consequences of the trade-off between relevance and faithful representation should be further evaluated. IFRS 9 is a new standard, and as commented by some of the
respondents in this study, the real usefulness of IFRS 9 will unfold first during an economic downturn when credit losses appear at a significantly larger scale than that of today. The economic climate in Europe can change, and it would then be uncertain of how the Expected Credit Loss models would react to changes in the underlying variables.
8. References

8.1 Articles


8.2 Internet sources

BDO (2017a). IFRS 9 explained – the classification of financial assets. Retrieved May 08, 2019, from


Statistiska Centralbyrån (2001). Fråga rätt! Utveckla, testa, utvärdera och förbättra blanketter, Retrieved May 14, 2019, from
https://www.scb.se/statistik/_publikationer/OV9999_2000I02_BR_X97%C3%96P0101.pdf


### 9. Appendix

#### 9.1 Operationalisation of the Conceptual Framework

<table>
<thead>
<tr>
<th>Relevance</th>
<th>Formulated by 5 questions</th>
<th>One of the key fundamental aspects of accounting information is to deliver relevant information (IASB, 2010). Accounting information is capable to be a deciding factor if it consists of predictive value, confirmatory value or both.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faithful representation</td>
<td>Formulated by 4 questions</td>
<td>Faithful representation in accounting implies that financial reporting should represent the true underlying economic phenomena in order to be relevant for its users (Runesson et al., 2018). Since analysts must make their own assumptions and forecasting of firms, they must be able to rely on the information provided (Barker et al., 2012).</td>
</tr>
<tr>
<td>Comparability</td>
<td>Formulated by 3 questions</td>
<td>In order to fulfil the requirement of comparability, the accounting information must be comparable to the information of similar corporations (IASB, 2010). However, the accounting information that is provided is often unique and presented in the manner of how the firms have chosen to interpret the various accounting rules (IASB, 2010).</td>
</tr>
<tr>
<td>Understandability</td>
<td>Formulated by 4 questions</td>
<td>The information should be presented so that a person with basic financial knowledge understand the concept (IASB, 2015). Sometimes accounting information can be complex and the user is then urged to seek expertise about the complex economic phenomena in order to understand the substance to be able to make well-informed decisions (IASB, 2015).</td>
</tr>
<tr>
<td>Timeliness</td>
<td>Formulated by 3 questions</td>
<td>The timeliness of accounting implies that financial information must be available for users in a timely manner so that it can be taken into consideration in decision-making, including the decision of buy, hold or sell a stock (IASB, 2010).</td>
</tr>
</tbody>
</table>
Timeliness also correlates to the time aspect that the older the information the less useful it is for decisions (Runesson et al., 2018).

Verifiability
Formulated by 3 questions.

Accounting information should be verifiable and be based on real economic events (IASB, 2010). To be able to verify the information provided analysts must often make a trade-off of trusting the information provided and the time spent verifying it (IASB, 2010).

9.2 Survey

<table>
<thead>
<tr>
<th>Question</th>
<th>Survey Questions</th>
<th>Average</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background information</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. (B1)</td>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. (B2)</td>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. (B3)</td>
<td>How many years have you worked with equity research?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. (B4)</td>
<td>Whereas (x) years in research of the banking industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Decision-usefulness</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. (D1)</td>
<td>Accounting information is important for equity research</td>
<td>4.43</td>
<td>0.99</td>
</tr>
<tr>
<td>6. (D2)</td>
<td>I regularly use accounting information</td>
<td>4.70</td>
<td>0.88</td>
</tr>
<tr>
<td>7. (D3)</td>
<td>I rely on the accounting information when evaluating the banking industry</td>
<td>4.56</td>
<td>0.59</td>
</tr>
<tr>
<td><strong>Relevance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. (R1)</td>
<td>IFRS 9 provides relevant information for me as an analyst</td>
<td>3.78</td>
<td>0.80</td>
</tr>
<tr>
<td>9. (R2)</td>
<td>IFRS 9 provides useful information for me as an analyst</td>
<td>3.96</td>
<td>0.93</td>
</tr>
<tr>
<td>10. (R3)</td>
<td>The Expected Credit Loss model within IFRS 9 provides information is useful for predicting possible future economic events</td>
<td>3.17</td>
<td>0.65</td>
</tr>
<tr>
<td>11. (R4)</td>
<td>IFRS 9 provides information that is useful for forecasting stock prices</td>
<td>2.22</td>
<td>0.95</td>
</tr>
<tr>
<td>12. (R5)</td>
<td>IFRS 9 helps me with the confirmation of previous predictions</td>
<td>2.35</td>
<td>0.93</td>
</tr>
<tr>
<td><strong>Faithful Representation</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>13. (FR2)</td>
<td>I find that IFRS 9 present a true and fair picture of banks</td>
<td>3.00</td>
<td>1.09</td>
</tr>
<tr>
<td>14. (FR2)</td>
<td>I find the information from the IFRS 9 to be neutral and objective</td>
<td>2.96</td>
<td>0.98</td>
</tr>
</tbody>
</table>
### Understandability

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>17. (U1)</td>
<td>I find IFRS 9 easy to understand</td>
<td>3.22</td>
</tr>
<tr>
<td>18. (U2)</td>
<td>I understand how financial assets are classified under IFRS 9</td>
<td>3.57</td>
</tr>
<tr>
<td>19. (U3)</td>
<td>I understand how credit loss recognition is conducted with the Expected Credit Loss model</td>
<td>3.70</td>
</tr>
<tr>
<td>20. (U4)</td>
<td>I understand how banks define a “significant increase in risk” under IFRS 9</td>
<td>2.87</td>
</tr>
</tbody>
</table>

### Comparability

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<table>
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<tbody>
<tr>
<td>21. (C1)</td>
<td>IFRS 9 provides information that is easily comparable among other banks</td>
<td>2.48</td>
</tr>
<tr>
<td>22. (C2)</td>
<td>IFRS 9 increases the comparability within a specific bank (comparing quarterly reports etc.)</td>
<td>2.87</td>
</tr>
<tr>
<td>23. (C3)</td>
<td>IFRS 9 has decreased the comparability between banks</td>
<td>3.00</td>
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### Timeliness

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<tbody>
<tr>
<td>24. (T1)</td>
<td>IFRS 9 does not provide information in a timely manner</td>
<td>3.22</td>
</tr>
<tr>
<td>25. (T2)</td>
<td>Quarterly reports are sufficient in addressing changes in credit risks under IFRS 9</td>
<td>3.48</td>
</tr>
<tr>
<td>26. (T3)</td>
<td>I find the IFRS 9 information in annual and quarterly reports to be up to date when released</td>
<td>3.65</td>
</tr>
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</table>

### Verifiability

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<table>
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</thead>
<tbody>
<tr>
<td>27. (V1)</td>
<td>The information in IFRS 9 can be easily verified</td>
<td>2.04</td>
</tr>
<tr>
<td>28. (V2)</td>
<td>The disclosures under IFRS 9 provides sufficient information</td>
<td>2.39</td>
</tr>
<tr>
<td>29. (V3)</td>
<td>I have been required to verify disclosures regarding IFRS 9</td>
<td>2.13</td>
</tr>
</tbody>
</table>

### Elaborative questions

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<tbody>
<tr>
<td>30. (E1) (Relevance)</td>
<td>Has IFRS 9 affected your view on the banking industry?</td>
<td></td>
</tr>
<tr>
<td>31. (E2) (Faithful representation)</td>
<td>What (if any) are the greatest challenges for analysts to take in consideration regarding IFRS 9?</td>
<td></td>
</tr>
<tr>
<td>32. (E3) (Comparability)</td>
<td>How has the comparability between banks been affected by IFRS 9 and how does it affect you as an analyst?</td>
<td></td>
</tr>
<tr>
<td>33. (E4) (Verifiability)</td>
<td>Has the increased information with IFRS 9 changed your research process of evaluating the risk in banks?</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answers</td>
<td>Themes</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Has IFRS 9 affected your view on the banking industry?</td>
<td>“Not at this stage. But too soon to have a definite view”</td>
<td>Time aspect</td>
</tr>
<tr>
<td></td>
<td>“No... at the end of the day, is only supposed to change the shape of the credit cycle for the banks, not the actual over the cycle risk profile of the banks, which is what really matters in my view.”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Not at all.. Loan impairment charges are super low any regardless... We do not see the effect until shit hits the fan..”</td>
<td>Not affected</td>
</tr>
<tr>
<td></td>
<td>“No... at the end of the day, is only supposed to change the shape of the credit cycle for the banks, not the actual over the cycle risk profile of the banks, which is what really matters in my view.”</td>
<td></td>
</tr>
<tr>
<td>What (if any) are the greatest challenges for analysts to take in consideration regarding IFRS 9?</td>
<td>“It’s still new to us as well so it takes time to get a sense for how movements occur from quarter to quarter and to reconcile it with the old impaired loans practice. For some banks there is also somewhat of an “information overload” on IFRS 9 that tends to drown out the real underlying movements”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Let's get a downturn - then we can see the real value of IFRS9. Up until the international comparison has not really changed as one naively could have hoped for - just like with most other accounting changes.”</td>
<td>Time aspect</td>
</tr>
</tbody>
</table>
“It is not clear to me that all banks use the same methodology to classify loans as stage 2 as they can rebut the 30 days past due rule. Fundamentally we have no way to gauge externally what the impact of different GDP assumptions and other inputs will be. We don't even know how often banks need to review assumptions. Standardised sensitivity tables would help”

“To compare assumptions between banks. Hard to understand what basic economic scenarios are being used and when a bank will change this and how will this impact provision levels.”

“IFRS9 is not that important, and credit losses is just a small part of the income statement. You don't spend too much time on it”

“Not much really. Nothing has really changed with IFRS 9. Expected loss is still just as subjective as it was before. The different IFRS9 levels across the European sector demonstrates this well.”

9.2.3 Elaborative question - Comparability

<table>
<thead>
<tr>
<th>Question</th>
<th>Answers</th>
<th>Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>How has the comparability between banks been affected by IFRS 9 and how does it affect you as an analyst?</td>
<td>“So far not but next downturn will make differences hopefully more clear.”</td>
<td>Time aspect</td>
</tr>
<tr>
<td></td>
<td>“It was intended to increase comparability cross border - not many signs that this has been successful.”</td>
<td>Comparison</td>
</tr>
<tr>
<td></td>
<td>“My sense is that not all banks use the same models.”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Not all banks are fully transparent about the assumptions they make and the parameters that go into the model, so it's hard to compare apples to apples.”</td>
<td></td>
</tr>
</tbody>
</table>
Too much complexity makes comparability scarce.

Comparability has always been hard.. No, it has not affected.

To the worse, but it doesn't affect me.

9.2.4 Elaborative question - Verifiability

<table>
<thead>
<tr>
<th>Question</th>
<th>Answers</th>
<th>Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the increased information with IFRS 9 changed your research process of evaluating the risk in banks?</td>
<td>“Not yet as I want to see it in &quot;action&quot; for a few more quarters first. So far I've seen very little change in provision levels for banks despite the &quot;consensus&quot; being that loss ratios would increase a lot ahead of implementation. I think many banks are still adjusting their models and learning as they go.”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Not at this moment, the standard and disclosures are too new to change my opinion.”</td>
<td>Time aspect</td>
</tr>
<tr>
<td></td>
<td>“New set of numbers - all time series are lost =&gt; lower visibility for now - will hopefully improve over time.”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“No, it has made it too complex.”</td>
<td>Complexity</td>
</tr>
<tr>
<td></td>
<td>“Yes, limited historical data (reporting) under IFRS 9 makes futures estimates harder.”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“No, just makes forecasting harder”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“No. Credit losses is not THAT important.”</td>
<td>Not affected</td>
</tr>
</tbody>
</table>
### 9.2.5 Elaborative question - Timeliness

<table>
<thead>
<tr>
<th>Question</th>
<th>Answers</th>
<th>Themes</th>
</tr>
</thead>
</table>
| Are there any challenges when using forward-looking data as an analyst? (ECL model) | “The macro variables that the banks use are not entirely clear”  
“It creates more volatility as small changes to customer behaviour or input variables can have an outsized effects, especially in Stage 1 and Stage 2 lending. Primarily an issue on unsecured lending where behavioural effects and flow between the stages has a bigger impact”  
“Many, I could go on all day. In the end of the day, the banks, apply ECL models on their own prop data, meaning they will get whatever they want”  
“Yes not always clear what assumptions are” | Complexity  
Trustworthiness |

### 9.2.6 Elaborative question - Understandability

<table>
<thead>
<tr>
<th>Question</th>
<th>Answers</th>
<th>Themes</th>
</tr>
</thead>
</table>
| Are there parts that are more difficult to understand with IFRS 9? What is challenging as an analyst? | “There is no best practice yet, banks use different thresholds and definitions in their expected credit loss models and disclosure levels vary a lot. Some banks give a lot of information that is useful, others disclose a lot less. I also get a sense that many of the banks don't understand it fully themselves, especially when it comes to seasonal effects that might impact ECL levels in a given quarter.”  
“IFRS 9 is not comparable between companies” | Time aspect  
Comparison |
“IFRS 9 is fairly new and based on disclosed data so far, you cannot conclude any reliable future trends. Companies themselves are cautious when discussing trends as the standards are fairly new to them. The levels of disclosures are standard and difficult to read into them. However, management teams of most companies have been helpful with navigating through the information”

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