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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**December 2008, London**
Project:	**IAS 39 *Financial Instruments: Recognition and Measurement***
Subject:	**Cover Note – Impairment (Agenda Paper 6A)**

Purpose of this paper

1. This paper summarises two main themes related to the impairment of financial assets that were raised by participants at the recent round tables on the global financial crisis.

2. Before summarising the two themes, it is important to note that at each round table meeting the impairment discussion took significantly more time, and was in greater detail, than the discussion of any other issue raised.

3. This paper contains an overall recommendation regarding the work the boards should undertake to improve the accounting for impairment of financial assets.

4. Separate papers discuss the detailed impairment issues raised at the round tables to assess whether any issues can and should be addressed urgently to improve financial reporting and enhance investor confidence.

Two main themes relating to the impairment of financial assets

5. This section summarises two main themes that arose at the round table meetings.

Different impairment approaches

6. It was noted that both US GAAP and IFRS have several (and possibly more) impairment models for financial assets.

7. The models often have different recognition triggers, different measurements of impairment losses, and different abilities to reverse previously recognised impairments. In some cases, the recognition triggers are inconsistent with the measurement approach used.

8. It was noted that applying the models often results in different accounting for the same or very similar financial assets.

9. Not only did participants note that there are several different models *within* IFRS and US GAAP, they also noted there are significant differences *between* IFRS and US GAAP – starting with the types of instruments to which the different impairment models in IFRS and US GAAP are applied to.

10. Many participants asked that the Boards develop a single converged impairment model that applies to all financial assets. (It was noted by some that equity investments may need to be considered separately from interest bearing instruments.)

The meaning of 'impairment' and effect on earnings

11. Many preparers are clearly focussed on the effect on earnings of an impairment charge. That is, preparers are focused on the impairment charge that should be reported in earnings (this is for reasons that include the effect on regulatory capital in some jurisdictions and the effect on debt covenants).

12. Underlying this issue is the different impairment models that exist today for (a) loans and debt securities (in US GAAP) and (b) AFS and other non-equity financial assets (in IAS 39). Specifically, the question is whether the

recognition and measurement of impairment should reflect only incurred losses of contractual cash flows or should reflect the measurement of all uncertainties that market participants take into account (fair value).

13. Another way of saying this is that there is no common understanding of what 'impairment' means, and this is made worse by the inconsistency between the recognition triggers and measurement of impairment in all of the different models.

14. Many preparers prefer an impairment model that is based on incurred losses of contractual cash flows – at least as an interim step before any broader review.

15. Most users stated that they believe that reporting impairments based on fair value measurement has proven to be the more reliable indicator of ultimate losses, and doing something else would reduce transparency. However, they also stated that some form of estimate of incurred losses of contractual cash flows would be useful information, if such disaggregation from fair value changes was possible.

Staff recommendation – improving the accounting for impairment of financial assets

16. The impairment of financial assets will inevitably form part of the project to improve and simplify the reporting of financial instruments.

17. However, given that the board has already added the financial instruments project to the agenda and the FASB is expected to do the same very shortly, the staff will bring papers to both boards in early 2009 setting out approaches for how to address impairment issues in an expeditious manner.

Discussion of particular issues raised at the round table meetings

18. Separate papers discuss some of the detailed impairment issues raised at the round tables to assess whether any issues can and or should be addressed urgently to improve financial reporting and enhance investor confidence.

19. Any such action would be in addition to what is being suggested in paragraph 17 above.

20. All of the particular issues raised at the round tables relate to financial assets classified as available-for-sale (AFS).

21. The papers are:

    (a) AFS debt instruments: Differentiation between credit related impairment losses and other fair value changes for impairment triggers, measurement, presentation and disclosure. (AP6A1)

    (b) Impairment triggers and reversals of impairment regarding AFS equity instruments. (AP6A2)