
Project	Financial Instruments: Amortised Cost and Impairment
Topic	General approach for redeliberations

Background

1. In agenda paper 4 of the 3 August 2010 meeting, the staff presented the board a diagram representing the key features of an expected loss (EL) model and variations of those features. The diagram, with a few edits, has been included as Appendix A.
2. The key features of that diagram are:
 - (a) whether an EL model should require/permit a recognition threshold;
 - (b) allocation of initial EL estimate;
 - (c) allocation of subsequent changes to EL estimate; and
 - (d) whether a floor should be required/permitted for measurement of the allowance account.
3. During that meeting the board discussed these key features and their variations. No decisions were requested or made.

Purpose of this paper

4. The purpose of this paper is to present the staff's approach to redeliberations over the coming months. We feel it is helpful to understand the overall plan for presenting issues to the board in order to keep redeliberations focussed and structured.

Approach for redeliberations

5. We learnt from outreach, comment letters, and the Expert Advisory Panel (EAP) discussions that it is operationally challenging to apply the model proposed in the ED to **open portfolios**. Therefore, as redeliberations continue, the staff intends to present the discussions to the Board in the context of open portfolios

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first. The staff believes that an impairment model that can be applied to an open portfolio can also be applied to closed portfolios.

6. The staff will bring any other specific issues on single instruments after the general impairment model for open portfolios has been developed.
7. **Therefore, the main focus for the upcoming Board discussions is in developing an impairment model that can be applied to open portfolios.**
8. The staff will use the diagram in Appendix A as a roadmap for the redeliberations. The diagram reflects constituent feedback as the majority prefer an EL model projecting the losses over the lifetime and by setting out the different aspects associated with such an approach.
9. At this meeting, we will start the discussions at the top of the diagram with agenda papers 1C and 1D asking the Board to make decisions on that part of the diagram:
 - (a) whether to use an expected loss approach;
 - (b) what conditions should be included when calculating expected losses;
and
 - (c) whether the expected losses should be projected over the lifetime of the financial instruments or something shorter.
10. The rest of the diagram lays out the road map for the redeliberations as follows:
 - (a) whether the impairment model should include a recognition threshold;
 - (b) variations of allocating the initial expected losses;
 - (c) variations of allocating the subsequent changes to the EL estimates, including interactions with a good book/bad book approach; and
 - (d) whether the decisions taken up to this point would require, or allow for, a floor to be included in the model.
11. Over the forthcoming meetings, all of those topics will be presented to the Board with detailed analyses and asking the Board for decisions.
12. Once the decisions on the key features for the approach have been made, there will be other issues to discuss. Whilst not complete, below are some examples

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of issues the staff believes will need to be re-addressed, or confirmed, by the Board in response to comments/feedback received:

- (a) Should the calculation of ECF or EL require a single method (eg probability-weighted possible outcomes) or might there be more than one appropriate method?
- (b) Should trade receivables and/or non-financial institutions have separate treatment?
- (c) Should definitions of nonperforming assets and write-offs be changed?
- (d) What disclosures should be required in the final standard?
- (e) Are any illustrative examples or implementation guidance needed in a final standard?

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Appendix A

