
Project	Financial Instruments: Impairment
Topic	Cover Paper

Background

1. In November 2009 the Board published the exposure draft *Financial Instruments: Amortised Cost and Impairment* (the ED). The 8-month comment period ended on 30 June 2010.
2. At its July 2010 meeting, the Board discussed:
 - (a) a high-level summary of the main themes identified from the staff's initial review of comment letters (see paragraph 12 below); and
 - (b) a summary of the feedback received during the Expert Advisory Panel (EAP) meetings prepared by the IASB team of participating Board members and staff.
3. No decisions were requested at that meeting.
4. As a reminder, the comments received from the comment letters had the following main themes:
 - (a) Strong support for moving towards an EL impairment approach (discussed in agenda paper 4A).
 - (b) The expected cash flow approach in the ED is too difficult to apply operationally (discussed in agenda paper 4B).
 - (c) Particular measurement principles are too prescriptive or inconsistent with other parts of the ED (discussed in agenda paper 4B).

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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- (d) Lack of special consideration for non-financial entities which may have mostly non-interest bearing financial instruments, and for investment-grade bond portfolios.
 - (e) Presentation and disclosure requirements are too onerous and voluminous which causes information overload.
 - (f) Practical expedients are generally welcome, but need to be more flexible, and certain definitions are too restrictive.
 - (g) Due process and convergence with US GAAP are important.
5. The IASB outreach included targeted outreach with users of financial statements. The staff will bring to the Board at a later meeting a summary of user feedback in a separate paper.

This meeting

6. At this meeting, the following papers will be discussed:
- (a) Agenda paper 4A: the impairment approach;
 - (b) Agenda paper 4B: variations of an Expected Loss (EL) approach; and
 - (c) Agenda paper 4C: overview of alternative models.
7. The diagram below sets out the key features of the EL approach. Next to each key feature of the EL approach are variations to that key feature suggested by respondents to the ED and feedback from outreach activities.
8. Agenda paper 4A discusses the top part of the diagram. That paper discusses the EL approach versus other approaches, as well as different ways of estimating the EL over the lifetime or over a shorter period. In addition, it will also address the 'recognition threshold' variations from the diagram.
9. Agenda paper 4B will address some of the comments received in relation to the possible variations of recognising the EL. That paper will focus on the variations next to the following key features:
- (a) 'allocation of initial EL estimate';

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- (b) 'allocation of subsequent changes to EL estimate'; and
 - (c) 'floor for measurement of EL'.
10. Agenda paper 4C provides an overview of the alternative models based on different variations of the key features as suggested by some respondents to the ED and feedback from outreach activities. The circled letters in the diagram below mark the key features for each of the models.
11. The papers do not ask the Board for a decision. Rather they are to inform the Board of the various suggestions received from respondents to the ED and outreach activities including the EAP. Because some variations of the key features are interrelated with other variations, it is important that you have an overall picture.
12. The Board will be asked at a later meeting to decide on the impairment approach and the key features of that approach in further developing the impairment model. These decisions will be required from the Board before any further discussions of possible detailed requirements (eg using probability weighted cash flows or credit losses or an average loss rate for determining expected losses) can be useful.

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Variations of an Expected Loss Approach

