Project **Financial Instruments: Replacement of IAS 39**

Amortised Cost and Impairment

Topic **Scope: individual financial assets**

Introduction

Background

1. As set out in agenda paper 1A, the Board's redeliberations have focused on applying an impairment model to open portfolios. This is in response to the feedback from the Expert Advisory Panel (EAP) and feedback on the exposure draft *Financial Instruments: Amortised cost and Impairment* (ED/2009/12). That feedback indicated that the most significant operational challenges are associated with open portfolios.

Purpose

2. The purpose of this paper is to ask for direction from the Board on *whether* financial instruments that are not part of an open portfolio (ie individual instruments or closed portfolios) should be excluded from any forthcoming ED on impairment.

3. This paper does *not* address *how* financial instruments that are not part of an open portfolio should be treated. If excluded from any forthcoming ED on impairment, the accounting for these financial instruments would be discussed as part of the Board's ongoing redeliberations of ED/2009/12.

Staff analysis

Scope of ED/2009/12

4. ED/2009/12 included in its scope all items that are measured at amortised cost under IFRS 9 *Financial Instruments*. Hence, the impairment related proposals apply to financial assets irrespective of whether they were part of an open portfolio, a closed portfolio or no portfolio at all ('individual' instruments).[1]

5. The Board has received extensive and detailed feedback on the proposals how to apply amortised cost measurement—including impairment—to individual instruments as well as open and closed portfolios as part of the feedback on ED/2009/12. This feedback was summarised in the summary comment letter analysis presented to the Board in July 2010.[2] In addition, the Board has also received extensive feedback on this matter during the outreach that has been ongoing since June 2009 and from the EAP.

6. The operational concerns about the *impairment model* were mainly focused on open portfolios (see paragraph 1), particularly the issues of 'decoupling' and maintaining data related to the date of initial recognition of an item. As noted in agenda paper 1A, there were also concerns about the extent of *disclosures* and the related operational challenges regarding non-financial institutions (not limited to open portfolios).

Purpose of forthcoming ED

7. The staff consider that the purpose of any forthcoming ED on impairment is to expose proposals for an impairment model for open portfolios because this situation gives rise to the most significant operational challenges. Hence, compared to ED/2009/12 any forthcoming ED would be much narrower in scope because it would:

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[1] See paragraphs B4-B6 of ED/2009/12.
[2] See agenda paper 9A of the July 2010 meeting.

(a) only address *impairment* (whereas ED/2009/12 addressed amortised cost measurement as a whole for assets and liabilities);

(b) only address the situation of open portfolios (whereas ED/2009/12 addressed impairment irrespective of whether an asset is part of a portfolio, ie for all situations).

8. Hence, the staff consider that if the purpose of any forthcoming ED is to expose proposals for an impairment model for open portfolios, then including any financial instruments other than financial assets that are part of an open portfolio would result in:

(a) the ED being less targeted regarding the issues the Board needs to resolve; and

(b) soliciting for these financial instruments feedback on essentially the same proposals as in ED/2009/12, which is not efficient (neither for respondents nor for Board members or the staff).

Implications for finalising the project

9. The Board can redeliberate the accounting for financial instruments that are not part of an open portfolio on the basis of the feedback received on ED/2009/12 (see paragraph 5).

10. Once the Board has received feedback on any forthcoming ED and redeliberates the impairment model for open portfolios the Board can then determine whether the financial instruments standard should have:

(a) different impairment models for different circumstances (which then has ramifications for the structure of presentation and disclosures); or

(b) one single impairment model for all financial assets, in which case the impairment model chosen for open portfolios would also have to be applied to financial assets that are not part of an open portfolio. Given the reasons for any forthcoming ED (ie the operational complexity of open portfolios), the Board could not achieve a single impairment model by applying a model designed for financial assets outside of an open portfolio to open portfolios. Doing so would re-create the operational challenges that any forthcoming ED is intended to resolve.

Direction for developing model

11. The staff consider that if the purpose of any forthcoming ED is to expose proposals for an impairment model for open portfolios, then any financial instruments other than financial assets that are part of an open portfolio should be excluded from the scope of such an ED. The staff consider that:

(a) the feedback already received on ED/2009/12 (and from the EAP process and other outreach activities) provides a sufficient basis for the Board's redeliberations regarding financial instruments other than financial assets that are part of an open portfolio;

(b) such a scope results in a targeted ED addressing the issue the Board wants to resolve.

Question
Does the Board agree with the staff's suggestion on the scope of any forthcoming impairment exposure draft as set out in paragraph 11 above (to be used to further develop the impairment model)? If not, what does the Board propose instead and why?