Project	**Financial Instruments: Replacement of IAS 39**
	Amortised Cost and Impairment
Topic	**Presentation and disclosures**

Introduction

Background

1.   The exposure draft *Financial Instruments: Amortised Cost and Impairment* (ED/2009/12) sets out proposals for:

   (a)   presentation;

   (b)   disclosures on the expected cash flow (ECF) approach; and

   (c)   disclosures about the credit quality of financial assets.

2.   At previous meetings, to address the operational challenges of applying the ECF approach as set out in ED/2009/12 to open portfolios, the Board discussed a time-proportionate approach in combination with a 'good' book / 'bad' book distinction as a possible impairment model for open portfolios.

3.   On 8 December 2010, the IASB and the Financial Accounting Standards Board (FASB) jointly discussed a minimum allowance amount (floor), eg losses expected to occur within the next 12 months or within an upcoming period[1] as an overlay to the time-proportionate approach.   Under this modified approach, eg the 12 month EL estimate is compared to the allowance balance calculated under the time-proportionate approach for the 'good' book and the higher of those two amounts is recognised in the financial statements along with the allowance balance for the 'bad' book.

4.   The staff note that the presentation and disclosure requirements in paragraphs 13 to 19 of ED/2009/12 are designed to enable uses to evaluate the financial effects of interest revenue and expense under the ECF approach.   The staff note that

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[1] With the period being no less than 12 months.

entities will face similar operational challenges in complying with the proposed disclosures in paragraphs 13 to 19 of ED /200/9/12 for open portfolios that also apply to the ECF approach. The main reason is that the presentation and disclosure requirements use the data that the ECF approach would require or generate. For example, paragraph 19(a) of ED/200/9/12 requires a comparison between the development of the credit loss allowance over time and cumulative write-offs—known as the loss triangle. The loss triangle requires disclosure of EL over time by vintage—a challenge under open portfolios.

5. Hence the staff believe that for the upcoming impairment exposure draft on impairment, new presentation and disclosures based on the model developed for open portfolios should be proposed (ie based on the modified time-proportionate approach).

Purpose

6. The purpose of this paper is to ask whether the Board agrees with the staff's proposals for presentation and disclosure requirements for the modified time-proportionate approach.

7. Appendix C sets out a summary of the disclosure recommendations included in this paper.

Structure

8. The rest of this paper is structured as follows:

(a) overall objective;

(b) general presentation and disclosures;

(c) question to the Board on general presentation and disclosures;

(d) specific disclosure issues:

    (i) reconciliation of allowance account—presentation of transfer between 'good' book and 'bad' and question to the Board;

    (ii) sensitivity analysis and question to the Board.

Objective of this paper

9. This paper discusses possible presentation and disclosures to enable users to evaluate the financial effect of interest revenue and expense as a result of the time-proportionate approach with 'good' book / 'bad' book and a floor.

10. The staff note that ED/2009/12 also contains proposed disclosures about the credit quality of financial assets (set out in Appendix A for the Board's reference). These disclosures are 'stand alone' in that they are independent of the disclosures on the ECF approach (ie the disclosures about credit quality of financial assets can be required irrespective of the impairment model proposed by the Board). Hence, these disclosures are not discussed in this paper. The Board can redeliberate the disclosures about the credit quality of financial assets on the basis of the feedback received on ED/2009/12

11. The staff further note that the proposals for presentation and disclosure that are discussed in this paper do not replace the credit risk related disclosures currently required in IFRS 7 *Financial Instruments: Disclosures.*

Presentation

Statement of comprehensive income

12. During its redeliberations, the Board tentatively decided to use a non-integrated (ie *'decoupled')* approach when allocating the lifetime EL and recognising interest revenue. Under the decoupled approach, the calculation of EL is kept separate from interest revenue.

13. Under a decoupled approach interest revenue is recognised using the effective interest method under IAS 39 *Financial Instruments: Recognition and Measurement*. The effective interest rate (EIR) calculated under IAS 39 considers the expected cash flows from the financial instruments including all contractual terms (eg prepayment, call and similar options) but does not consider future credit losses.

14. Under the modified time-proportionate approach (ie the approach that introduces a floor—Alternative 4A from the 8 December 2010 discussions), credit losses recognised in the period consist of

    (i)   the amount required to reach the *higher* of time-proportionate amount and losses expected in the upcoming period (eg 1 year EL) in the 'good' book; and

    (ii) the amount required to provide for credit losses in its entirety for loans in the 'bad' book.

Staff recommendation

15. The staff recommend the following presentation on the face of the statement of comprehensive income:

    (a)   interest revenue presented based on the IAS 39 EIR; and

    (b)   impairment expense as a separate line item.

    Example:

	Year X1	Year X2
Revenue:		
Interest (like under IAS 39)	6,125,000	4,639,000
Expenses:		
Impairment expense	(122,500)	(231,950)

Disclosures in the notes to the financial statements

Class of financial assets for disclosures related to credit risk

16. The staff consider that, in order to provide useful information, the proposed disclosures should be provided, at a minimum, by class of instrument. Paragraphs B1 to B3 of IFRS 7 (see appendix B) explain classes of financial instruments. Under IFRS 7, an entity is currently required to group financial instruments into classes of financial assets that are appropriate to the nature of the information disclosed taking into account the characteristics of those financial instruments. The staff note that for the proposed disclosures below to

be useful, information should be provided on a sufficiently disaggregated level that reflects the relevant credit characteristics of different portfolios.

Staff recommendation

17. The staff recommend that the following examples could be included in the upcoming ED to provide additional guidance on the level of aggregation that can be considered appropriate for disclosures about credit risk within the principles set out in IFRS 7.

18. For example, for a large international financial institution, financial assets could be grouped into classes based on the following characteristics:

   (a) government and central banks (further disaggregated into countries with AA ratings (or equivalent) and above, and countries with A ratings (or equivalent) and below);

   (b) financial institutions;

   (c) corporate;

   (d) retail (further disaggregated into secured by real estate collateral, qualifying revolving retail, retail SME and other); and

   (e) securitised financial assets.

19. For a corporate entities, financial assets could be grouped together into classes based on the following characteristics:

   (a) collateralised wholesale;

   (b) non-collateralised wholesale;

   (c) collateralised retail;

   (d) non-collateralised retail; and

   (e) credit card business.

Cross-reference to other statements

20. IFRS 7 permits the disclosures on the nature and extent of risks arising from financial instruments to be given in the financial statements or to be

incorporated by cross-reference (see appendix B). The staff note that some of the information required under the staff's proposals are already disclosed in other publicly available documents for other reporting purposes (eg regulatory).

Staff recommendation

21. The staff recommend that the following proposed disclosures can also be incorporated by cross-reference to other statements that are publicly available to users on the same terms as the financial statements and at the same time.

Allowance account for credit losses

22. Under any impairment model, the staff is of the view that the carrying amount of the allowance account is a crucial number as it provides users with information on the development of recognised expected credit losses. Hence, the staff consider that the use of a allowance account for credit losses should be mandated.

23. Under the modified time-proportionate approach, the reconciliation of the allowance account for the 'good' book is essential in explaining how the provision for credit losses are accumulated and used.

24. In conjunction with a 'good' book / 'bad' book distinction, the staff consider it is appropriate to provide more detailed information about the composition of, and the inflows and outflows of, the 'bad' book as credit risk is more intensely managed and monitored due to the higher risk of credit losses.

Staff recommendation

25. The staff recommend the following disclosures:

   (a)   separate reconciliations of the following allowance accounts:

         (i)   for the 'good' book;

         (ii) for the 'bad' book; and

   (b)   if losses expected to occur within the upcoming period are higher than the target (time proportionate) allowance in the 'good' book (ie if the floor was used), disclosure of the additional provision amount;

(c)   a reconciliation of the nominal amounts of loans in the 'bad' book.

26.   The staff think it would facilitate comparison and understandability of how credit losses are provided for and how the provisions are accumulated and used in relation to the balance of the 'bad' book, if the above reconciliations are shown side-by-side by class.

27.   The staff recommend that the reconciliations be presented in the following format with the following line items set out in the table below as a minimum.

28.   The staff note that while it is generally expected that loans move from the 'good' book to the 'bad' book before being written off, if an entity has a practice of 'directly' writing off a loan in the 'good' book, such information should be disclosed.

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Reconciliation of allowance accounts and nominal amount of the 'bad' book

'Good' book allowance		'Bad' book allowance		Total allowance account		Total profit or loss	Nominal amount of the 'bad' book	
Opening balance	XX	Opening balance	XX	Opening balance	XX		Opening balance	XX
							Add: originations/ purchases	XX
Less: transfers to 'bad' book	(XX)	Add: transfers from 'good' book	XX				Add: transfers from 'good' book	XX
Add: transfers from the 'bad' book	XX	Less: transfers to the 'good' book	(XX)				Less: transfers to 'good' book	(XX)
Less: write-offs	(XX)	Less: write-offs	(XX)	Less: write-offs	XX		Less: write-offs	(XX)
		Less: reversals	(XX)	Less: reversals	XX			
		Less: disposals	(XX)	Less: disposals	XX		Less: disposals (XX)	
Additions /releases	XX	Add: additional credit losses	XX	Additions/ releases and additional credit losses	XX	(XX)		_
Closing balance	XX	Closing balance	XX				Closing balance	XX
Additional balance because of floor (if applicable)	XX			Additional balance because of floor (if applicable)	XX	(XX)		
Closing balance	XX			Closing balance	XX	(XX)		

Information about factors that impact credit losses for the 'good' book

29. The staff think that information on how EL and the portfolio balance affect the recognition of gains and losses and the development of the allowance account of the 'good' book would be useful. This information would facilitate analyses of changes in the characteristics of portfolios and the drivers of the balance in the allowance account.

Staff recommendation

30. The staff recommend that disclosure of the following information in tabular format for the past 5 years for the 'good' book should be required:

   (a) lifetime EL;

   (b) balance of the outstanding nominal amount of the 'good' book;

   (c) target (time proportionate) allowance balance of the 'good' book; and

   (d) additional provision to reach the floor (if applicable).

31. The staff believe the above historical time series disclosures provide information about the development and relationship between lifetime EL, the growth or decline of the portfolio and the target allowance balance. Disclosing the target (time proportionate) allowance alongside with lifetime EL would provide users an indication of the approximate maturity of the portfolio. The above staff recommendation provides information on the history on the extent of EL that have been provided for in the 'good' book and whether an additional provision is required to cover losses expected to occur within the upcoming period.

Significant gains and losses

32. The staff believe that where there are material positive or negative changes to EL estimates that result from a particular portfolio or geographical area, the entity should provide further quantitative and qualitative analysis as appropriate in order for users to understand the nature of the change and why it occurred (eg EL estimates have decreased significantly due to a significant decline in portfolio size).

Staff recommendation

33. The staff recommend that entities disclose in the notes to the financial statements quantitative and qualitative analyses of gains and losses if a particular portfolio or geographical area has significant effects on the gains and losses.

Credit risk management and the 'good' book / 'bad' book distinction

34. At the 1 December meeting, the Board tentatively indicated that the 'bad' book should be defined based on internal credit risk management with the overall objective that loans in the 'bad' book are those where there is an indication that suggests not all the cash flows will be collected. As discussed in agenda paper 1C of that meeting, the criteria for transferring loans from the 'good' book to the 'bad' book differ across institutions and type of financial product. Hence the staff consider disclosures are essential to better understand and provide more transparency on how entities assess and manage credit losses.

Staff recommendation

35. The staff recommend the following disclosures:

   (a) a qualitative analysis of how loans are managed in the 'good' book and in the 'bad' book;

   (b) the criteria set for transferring loans from the 'good' book to the 'bad' book;

   (c) if an entity uses an internal credit rating system, information about that system. Information about the internal credit rating system can be provided by for example:

      (i) a comparison with external ratings;

      (ii) a description of grades; and

      (iii) if an entity uses a 'watchlist', a description and the criteria set for including or not longer including loans in the 'watchlist'; and

   (d) how the internal credit rating grades are assigned to the 'good' book and 'bad' book. Where applicable, entities should disclose how the 'watchlist'

fits within the 'good' book / 'bad' book framework for internal credit risk management purposes.

Information about credit risk management and assessment of EL

36. The staff consider that information should be provided to enable users to better understand the relationship between how financial assets are managed and the management's assessment of EL.

Staff recommendation

37. The staff recommend disclosing the nominal amount and information about EL (both lifetime EL and credit losses expected to occur in the upcoming period) across a sufficient number (but not more than the number of grades used internally) of credit risk rating grades to allow meaningful differentiation of EL across the different credit grades (at a minimum an entity must differentiate between a 'good' book and 'bad' book). Information about EL could for example include information about loss given default, exposure at default, and probability of default.

Management judgment and estimate

38. The staff consider that under any impairment model the basis of inputs/assumptions used in determining credit losses should be disclosed given the broad range of information that may be used and the significant judgment involved. The staff consider that it is vital for such information to be communicated to users to allow them to understand how the entity arrives at the lifetime EL and credit losses expected to occur in the upcoming period.

Staff recommendation

39. The staff recommend the following disclosures for both lifetime EL and credit losses expected occur in the upcoming period:

(a) the basis of inputs (eg internal historical information or ratings report) and the estimation technique used to determine credit losses;

(b)   an explanation of what are the changes in estimates and the cause of the change (eg loss severity, change in portfolio composition); and

(c)   if there has been a change in estimation technique, disclosure of that change and the reason for the change.

Comparison of EL with actual outcomes

40.   The staff believe that information should be provided to enable users to understand and evaluate how estimates of credit losses compare with the actual outcomes of credit losses.

Staff recommendation

41.   The staff recommend the following disclosures:

(a)   if an entity performs back testing, provide quantitative analysis that compares the actual outcomes and the previous EL estimate. The analysis shall enable users to understand the difference between the actual outcomes and the previous EL. In some instances a qualitative explanation may be required (eg actual outcome is higher than expected due to worse than expected development in house prices).

(b)   if an entity does not perform back testing, a qualitative anlaysis of EL and the actual outcomes to enable users to understand the differences between the actual outcomes and the entity's estimates (eg losses more severe than expected due to worse than expected development in house prices).

Question to the Board

42.   A summary of the staff recommendations on the presentation and disclosures for the modified time-proportionate approach (Alternative 4A) as discussed in paragraphs 12 to 41 above is set out in appendix C.

> **Question 1—Presentation and disclosures**
>
> Does the Board agree with the staff recommendations for presentation and disclosures?

If not, why and what presentation and disclosures would the Board like to propose and why?

Specific disclosure issues

Reconciliation of allowance account—presentation of transfer between 'good' book and 'bad' book

43. The staff note that under the modified time-proportionate approach (Alternative 4A), there are different alternatives in which provisions for credit losses can be transferred from the 'good' book to the 'bad' book allowance.

44. Appendix D sets out examples of the different outcomes in presentation of the reconciliation of the allowance account depending on how the entity transfers credit loss provisions to the 'bad' book allowance:

    (a) 'full depletion'—the entire amount of provision required for the 'bad' book (100% of EL) would be transferred from the 'good' book. The EL in the 'good' book would be revised and a new target allowance established. A provision or release would be recognised for the amount required to reach the new target allowance;

    (b) 'partial depletion' approach—a provision for credit losses reflecting the age of the loan would be transferred from the 'good' book to the 'bad' book. For example, the portfolio has a weighted average age of 2 years and a weighted average life of 5 years and the EL on the loan is 10, 4 (2/5*10) would be transferred from the 'good' book to the 'bad' book and then an additional 6 would be provided for in the 'bad' book). The EL in the 'good' book would be revised and a new target allowance established. A provision or a release would be recognised for the amount required to reach the new target allowance; and

    (c) 'no depletion' approach—there is no transfer of provisions between the 'good' book and the 'bad' book. The credit losses expected for the loans in the 'bad' book would be recognised in its entirety in the 'bad' book

through profit or loss. The EL in the 'good' book would be revised, a provision or release would be recognised to reach the new target allowance.

45. The staff note that as the examples in Appendix D show, the impact on profit or loss is the same under the three alternatives. However, the reconciliations in the notes are presented differently depending on the alternative each entity adopts. The Board could consider mandating one of the alternatives to be used for disclosure in the notes to enable users to better compare across entities.

Question to the Board

> **Question 2—transfer between 'good' book and 'bad' book**
>
> Does the Board want to specify a particular alternative for how transfers between 'good' book and 'bad' book should be presented?

Sensitivity analysis

46. The staff acknowledge that information on the sensitivity of EL and the target loan loss allowance (sensitivity analysis) would be useful given the broad range of information that may be used and the significant judgement involved.

47. However the staff note that this would be very difficult to implement operationally as there are numerous inputs into the model and also many reasonable possible alternative assumptions that might be relevant for a portfolio of loans (eg changes in house prices, unemployment rate, economic growth etc) and changing these inputs and recalculating EL for each portfolio would be extremely burdensome for entities. In addition it is also difficult to distinguish what is a reasonable possible alternative assumption and what is not.

48. The staff further note providing a range of EL could also be difficult for entities that do not use statistical methods eg entities estimate EL based on historical loss rates might not be able to disclose a range for estimating EL.

49. The staff note that for these reasons the ED/2009/12 did not propose sensitivity analysis disclosures.

Staff recommendation

50.   Considering the operational complexities outlined in paragraphs 47 to 48 above, on balance, the staff do not recommend requiring disclosure regarding sensitivity of assumptions if changing one or more of the inputs to reasonably possible alternative assumptions would change EL and the target loan loss allowance significantly.

Question to the Board

> **Question 3—sensitivity analysis**
>
> Does the Board agree with the staff recommendation as set out in paragraph 50 above?

Appendix A—Proposed disclosures on the credit quality of financial assets in the ED/2009/12

Stress testing

20. If an entity prepares stress testing information for internal risk management purposes it shall disclose that fact and information that enables users of financial statements to understand:

    (a) the implications for the financial position and performance of the entity; and

    (b) the entity's ability to withstand the stress scenario or scenarios.

Credit quality of financial assets

21. For financial assets measured at amortised cost an entity shall disclose for each class of financial assets:

    (a) a reconciliation of changes in non-performing financial assets during the period; and

    (b) a qualitative analysis of the interaction between changes in non-performing financial assets and changes in the allowance account if that interaction is significant.

Origination and maturity (vintage) information

22. For financial assets measured at amortised cost an entity shall disclose for each class of financial assets information showing the year of origination and the year of maturity (vintage information).

Application guidance

Stress testing information (paragraph 20)

B26. The information that an entity provides about stress testing would typically include (but is not limited to):

(a) how such stress tests are conducted;

(b) a description of the stress scenario used and the related assumptions; and

(c) the outcome of the stress testing, including any significant conclusions.

Credit quality of financial assets (paragraph 21)

The reconciliation of changes in non-performing financial assets shall reconcile the nominal amounts at the beginning and end of the period showing at a minimum:

(a) increases resulting from reclassifications of performing loans as non-performing (ie deterioration of credit quality);

(b) increases resulting from acquisition of non-performing loans;

(c) decreases resulting from recoveries through enforcing securities;

(d) decreases resulting from recoveries due to payments of the debtor;

(e) renegotiations; and

(f) write-offs.

The qualitative analysis of the interaction between changes in non-performing financial assets and changes in the allowance account is a narrative explanation of how the two types of changes relate to each other and any common causes of the changes.

Origination and maturity (vintage) information (paragraph 22)

The information showing the year of origination and maturity shall be provided:

(a) on the basis of nominal amounts; and

(b) in tabular format (an example of a possible format is provided below).

Appendix B

Appendix B sets out extracts from IFRS 7 *Financial Instruments: Disclosures* in relation to classes of financial instruments and cross-references to other statements.

Classes of financial instruments and level of disclosure (paragraph 6)

B1　　Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IAS 39 and IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

B2　　In determining classes of financial instrument, an entity shall, at a minimum:
 (a) distinguish instruments measured at amortised cost from those measured at fair value.
 (b) treat as a separate class or classes those financial instruments outside the scope of this IFRS.

B3　　An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Nature and extent of risks arising from financial instruments
(paragraphs 31–42)

B6　　The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

APPENDIX C

C1.   This appendix sets out a summary of the staff recommendations on the presentation and disclosures for the modified time-proportionate approach as discussed in paragraphs 12 to 41 of the paper.

Presentation

Statement of comprehensive income

C2.   The staff recommend the following presentation on the face of the statement of comprehensive income:

(a)   interest revenue presented based on the IAS 39 EIR; and

(b)   impairment expense as a separate line item.

Example:

	Year X1	Year X2
Revenue:		
Interest (like under IAS 39)	6,125,000	4,639,000
Expenses:		
Impairment expense	(122,500)	(231,950)

Disclosures in the notes to the financial statements

Class of financial assets for disclosures related to credit risk

C3.   The staff recommend that the following examples could be included in the upcoming ED to provide additional guidance on the level of aggregation that can be considered appropriate for disclosures about credit risk within the principles set out in IFRS 7.

C4.   For example, for a large international financial institution, financial assets could be grouped into classes based on the following characteristics:

(a)   government and central banks (further disaggregated into countries with AA ratings (or equivalent) and above, and countries with A ratings (or equivalent) and below);

(b)   financial institutions;

(c)   corporate;

(d)   retail (further disaggregated into secured by real estate collateral, qualifying revolving retail, retail SME and other); and

(e)   securitised financial assets.

C5.   For a corporate entities, financial assets could be grouped together into classes based on the following characteristics:

(a)   collateralised wholesale;

(b)   non-collateralised wholesale;

(c)   collateralised retail;

(d)   non-collateralised retail; and

(e)   credit card business.

Cross-reference to other statements

C6.   The staff recommend that the following proposed disclosures can also be incorporated by cross-reference to other statements that are publicly available to users on the same terms as the financial statements and at the same time.

Allowance account for credit losses

C7.   The staff recommend the following disclosures:

(a)   separate reconciliations of the followings allowance accounts:

(i)   for the 'good' book;

(ii)   for the 'bad' book; and

(b)   if losses expected to occur within the upcoming period are higher than the target allowance in the 'good' book, disclosure of the additional provision amount;

(c)   a reconciliation of the nominal amounts of loans in the 'bad' book.

IASB Staff paper

C8.   The staff recommend that the reconciliations be presented in the following format with the following line items set out in the table below as a minimum.

Reconciliation of allowance accounts and nominal amount of the 'bad' book

'Good' book allowance		'Bad' book allowance		Total allowance account		Total profit or loss	Nominal amount of the 'bad' book	
Opening balance	XX	Opening balance	XX	Opening balance	XX		Opening balance	XX
							Add: originations/ purchases	XX
Less: transfers to 'bad' book	(XX)	Add: transfers from 'good' book	XX				Add: transfers from 'good' book	XX
Add: transfers from the 'bad' book	XX	Less: transfers to the 'good' book	(XX)				Less: transfers to 'good' book	(XX)
Less: write-offs	(XX)	Less: write-offs	(XX)	Less: write-offs	XX		Less: write-offs	(XX)
		Less: reversals	(XX)	Less: reversals	XX			
		Less: disposals	(XX)	Less: disposals	XX		Less: disposals (XX)	
Additions /releases	XX	Add: additional credit losses	XX	Additions/ releases and additional credit losses	XX	(XX)	–	
Closing balance	XX	Closing balance	XX				Closing balance	XX
Additional balance because of floor (if applicable)	XX			Additional balance because of floor (if applicable)	XX	(XX)		
Closing balance	XX			Closing balance	XX	(XX)		

Information about factors that impact credit losses for the 'good' book

C9.   The staff recommend that disclosure of the following information in tabular format for the past 5 years for the 'good' book should be required:

(a)   lifetime EL;

(b)   balance of the outstanding nominal amount of the 'good' book;

(c)   target allowance balance of the 'good' book; and

(d)   additional provision to reach the floor (if applicable).

Significant gains and losses

C10. The staff recommend that entities disclose in the notes to the financial statements quantitative and qualitative analyses of gains and losses if a particular portfolio or geographical area has significant effects on the gains and losses.

Credit risk management and the 'good' book / 'bad' book distinction

C11. The staff recommend the following disclosures:

(a)   a qualitative analysis of how loans are managed in the 'good' book and in the 'bad' book;

(b)   including the criteria set for transferring loans from the 'good' book to the 'bad' book;

(c)   if an entity uses an internal credit rating system, information about that system. Information about the internal credit rating system can be provided by for example:

(i)   a comparison with external ratings;

(ii)   a description of grades; and

(iii) if an entity uses a 'watchlist', a description and the criteria set for including or not longer including loans in the watchlist; and

(d)   how the internal credit rating grades are assigned to 'good' book and 'bad' book. Where applicable, entities should disclose how the 'watchlist' fits within the 'good' book / 'bad' book framework for internal credit risk management purposes.

Information about credit risk management and assessment of EL

C12.   The staff recommend disclosing the nominal amount and information about EL (both lifetime EL and credit losses expected occur in the upcoming period) across a sufficient number (but not more than the number of grades used internally) of credit risk rating grades to allow meaningful differentiation of EL across the different credit grades (at a minimum an entity must differentiate between a 'good' book and 'bad' book). Information about EL could for example include information about loss given default, exposure at default, and probability of default.

Management judgment and estimate

C13.   The staff recommend the following disclosures for both lifetime EL and credit losses expected occur in the upcoming period:

(a)   the basis of inputs (eg internal historical information or ratings report) and the estimation technique used to determine credit losses;

(b)   an explanation of what are the changes in estimates and the cause of the change (eg loss severity, change in portfolio composition); and

(c)   if there has been a change in estimation technique, disclosure of that change and the reason for the change.

Comparison of EL with actual outcomes

C14.   The staff recommend the following disclosures:

(a)   if an entity performs back testing, provide quantitative analysis that compares the actual outcomes and the previous EL estimate. The analysis shall enable users to understand the difference between the actual outcomes and the previous EL. In some instances a qualitative

explanation may be required (eg actual outcome is higher than expected due to worse than expected development in house prices).

(b)   if an entity does not perform back testing, a qualitative anlaysis of EL and the actual outcomes to enable users to understand the differences between the actual outcomes and the entity's estimates (eg losses more severe than expected due to worse than expected development in house prices).

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Appendix D

Full depletion

'Good' book allowance		'Bad' book allowance		Total P/L
Opening balance	500	Opening balance	0	
Less: transfer to 'bad' book	(100)	Add: transfer from 'good' book	100	
Add: transfers from the 'bad' book	0	Less: transfer to the 'good' book	0	
		Add: additional credit losses	0	
Less: write-offs	0	Less: write-offs	(100)	
		Less: reversals	0	
		Less: disposals	0	
Additions/releases	150			(150)
Closing balance	550	Closing balance	0	(150)

Partial depletion

'Good' book allowance		'Bad' book allowance		Total P/L
Opening balance	500	Opening balance	0	
Less: transfer to 'bad' book	(50)	Add: transfer from 'good' book	50	
Add: transfers from the 'bad' book	0	Less: transfer to the 'good' book	0	
		Add: additional credit losses	50	(50)
Less: write-offs	0	Less: write-offs	(100)	
		Less: reversals	0	
		Less: disposals	0	
Additions/releases	100			(100)
Closing balance	550	Closing balance	0	(150)

IASB Staff paper

No depletion

'Good' book allowance		'Bad' book allowance		Total P/L
Opening balance	500	Opening balance	0	
Less: transfer to 'bad' book	0	Add: transfer from 'good' book	0	
Add: transfers from the 'bad' book	0	Less: transfer to the 'good' book	0	
		Add: additional credit losses	100	(100)
Less: write-offs	0	Less: write-offs	(100)	
		Less: reversals	0	
		Less: disposals	0	
Additions/releases	50			(50)
Closing balance	550	Closing balance	0	(150)