Staff Paper

Project: **Financial Instruments: Impairment**

Topic: **ED Session – User feedback summary: comment letters, questionnaires, and outreach**

Purpose of this paper

1. In November 2009 the IASB published the exposure draft *Financial Instruments: Amortised Cost and Impairment* (the ED). The 8-month comment period ended on 30 June 2010 and, to date, the IASB has received 11 comment letters from users and a few more from organisations that describe themselves (or their members) as being responsible for analysing financial information, as well as preparing it (eg, some insurance organisations).
2. The outreach performed by the IASB included targeted outreach with users of financial statements. This included individual meetings, group meetings and a user questionnaire.
3. This paper provides a summary analysis of the feedback received from users in their comment letters and from the other outreach activities. This paper will use the same structure as that of agenda paper 9A of the July 2010 board meeting which has been reproduced as Appendix A to this paper. This will better facilitate a comparison to other constituent feedback.
4. This paper does not provide a quantitative review of responses or attribute comments to individual respondents. As the re-deliberations move forward, we will provide more detailed analyses of the comments and suggestions received from users in conjunction with the discussion of the issues identified by other constituents.

Key themes

5. Almost all user respondents are supportive of a move to an expected loss (EL) approach for impairment requirements.

6. Overall, the staff have identified the following main themes arising from the user feedback:

   (a) Strong support for moving towards an EL impairment approach (paragraphs 7-12).

   (b) The expected cash flow (ECF) approach in the ED is too complex and requires too many arbitrary management estimates (paragraphs 13-18).

   (c) Certain measurement principles are too prescriptive or not clear (paragraphs 19-27).

   (d) Lack of special consideration for non-financial entities that may have mostly non-interest bearing financial instruments (paragraphs 28-31).

   (e) Presentation and disclosure requirements are generally good, but more disclosures are suggested (paragraphs 32-40).

   (f) Convergence with US GAAP (paragraph 41).

Main themes identified

Strong support for moving towards an EL impairment approach

7. For many of the same reasons cited in paragraph 13 of Appendix A, most users agree that an impairment model measured using EL is an appropriate method (although not necessarily the ECF approach proposed in the ED – see below).

8. Many users from the outreach activities support the EL approach and the ability for management to exercise its judgement. These users believe that management is in the best position to judge the quality of the financial assets. However, other users who submitted comment letters are concerned with the

complexity of the approach, management judgement involved, and lack of specific guidance (see paragraphs 14 and 19 below).

9. There was very limited support for a 'through-the-cycle' or fair-value based impairment approach. The reasons cited for not supporting such approaches were mainly those in the ED's Basis for Conclusions.

10. A few respondents suggested that with increased disclosures, the incurred loss approach could be maintained.

11. Many respondents also stated that, in their opinion, prudential requirements should be separate from accounting requirements. Therefore, whether the EL approach was more pro-cyclical was not an issue for those users. They only want disclosures and explanation for why management chooses whatever assumptions are used in an EL approach.

12. Comparisons to other constituents – The user feedback comments on this issue are nearly identical to the comments received from the other constituents. See paragraphs 12-16 of Appendix A.

The ECF approach is too complex and judgmental

13. Many users comment on, and express concern with, the complexity of the ECF approach. They feel that the high level of complexity will decrease comparability and fail to bring transparency to the financial statements.

14. They also state that the approach requires too many arbitrary judgements which could result in lack of auditability, verifiability and usefulness whilst providing an opportunity to manage earnings.

15. However, many users also felt that earnings management would be mitigated by the proposed, and additional, disclosures. They also stated that the approach described in the ED is not workable for open portfolios, is largely written for loan books, and that an integrated EIR calculation might not be necessary.

16. For example, some users suggested (similar to other constituents) that the EIR approach in IAS 39 *Financial Instruments: Recognition and Measurement* should not be changed.

17. One reason cited for keeping the EIR calculation the same as today and separate from EL is that the current EIR calculation is well understood by users. In addition, some users do not want losses included in interest revenue. In addition, the user questionnaire asked whether users preferred to present interest revenue using the contractual rate times the gross contractual amount of loans, or times the carrying balance of the loans (this question was in relation to the top-line revenue, ie before the effect of any adjustment for credit losses). Users responded to the questionnaire stating they wanted interest revenue to be shown as the contractual amount times the contractual rate. In other words, they do not want interest revenue to include credit losses even if already incurred. This is consistent with the comments received that did not want the EIR to include expected credit losses. They would rather the financial statements be as granular as possible, and show the gross interest amount, the expected losses on a separate line (some prefer to show it within revenue and others prefer it shown in expense), and the resulting net amount.

18. Comparisons to other constituents – Whilst the comments above are generally consistent with those from other constituents, the other constituents focused more on the operational aspects as would be expected (eg application to open portfolios, decoupling the effective interest rate, lack of historical data, etc). See paragraphs 17-24 of Appendix A.

Measurement principles

19. Whilst most users agree with the EL approach, there was some concern over the perceived lack of clarity in some aspects of the measurement principles. They suggested that the ED should clearly describe what is included in expected losses and its measurement in order to increase comparability between preparers.

However, they do not want the calculation of expected losses to be 'over-engineered' as they believe it should be understandable by all users.

20. Some users also commented on the lack of clarity over what was meant in the ED to be included as expected cash flows or expected losses. They discussed their belief that the approach should not permit or require complex modelling of future expectations. They suggested that management should only use reasonably foreseeable losses when estimating expected losses.

21. At the same time, most users also stated that they felt the ED was more rules-based than principles based, and was too prescriptive in certain areas. For example, some users do not believe that it is necessary to use an integrated EIR to calculate amortised costs. Rather, a preparer should be able to match EL and timing of returns of the financial assets using any reasonable method (eg a reasonable decoupling methodology).

22. Many users also thought that prescribing the use of probability-weighted possible outcomes to determine the expected losses was inappropriate (although a few did agree with requiring this method). Instead they thought that using probability-weighted possible outcomes could be one way of calculating the expected losses, but that there may be other (more) appropriate methods. For example, they suggested that management may be able to continue to use current EL estimates and provide sensitivity analyses for major assumptions used.

23. As it relates to the measurement of changes in estimates, there was no broad consensus on how to treat that change. Some like the full catch-up, some like the 'partial' catch-up, and some think no catch-up is acceptable. However, no matter what the treatment, users want clear disclosure of how the subsequent changes in estimates are, or will be, recognised in the financial statements.

24. Nearly all users stated that 'actual' losses occurred either when losses were incurred or written off (as opposed to when all enforcement activities have ceased). However, it was an even split between incurred or written off for when the users thought an 'actual' loss had occurred. Very few suggested that all legal avenues should be exhausted before an 'actual' loss had occurred.

25. As discussed below, some users suggested that special consideration should be given to nonfinancial institutions and/or treatment of short-term non-interest bearing financial assets (eg short-term trade accounts receivables). Some suggested that perhaps special consideration could be provided through the use of practical expedients related to presentation and disclosure or a scope-out. However, some users commented that a standard that requires the use of practical expedients was too complicated and should be simplified so as to allow application of the principles without using practical expedients.

26. Again, although the users (appropriately) did not focus as much on operational issues, they did agree with the comments related to the complexity of the standard. For this reason they suggested that the standard should provide more implementation guidance and examples, especially for specific instruments (eg financial liabilities, variable rate notes, credit card receivables, complex financial instruments including structured products). In addition, they want illustrative examples of how to calculate expected losses and an effective interest rate. They also suggested that illustrative examples of presentation and disclosure would be helpful.

27. Comparisons to other constituents – Users were not as opposed to a full catch-up for the treatment of subsequent changes in estimates as were other constituents. However, the comments received from other constituents were consistent as it relates to the use of probability-weighted possible outcomes, providing clarity over what should be included in the calculation of expected credit losses, and providing more illustrative examples and implementation guidance due to the complexity of the ED. See paragraphs 25-30 of Appendix A.

Non-financial institutions and non-interest bearing financial instruments

28. For many of the same reasons cited in paragraph 31 of Appendix A, some users felt the application of the requirements in the ED to short-term trade accounts receivable and nonfinancial institutions is too complex and unworkable.

29. Further, some users state that they want bad debt and impairment expenses presented separately on the financial statements. They feel that deducting credit losses from sales does not reflect the business of nonfinancial institutions. However, other users suggested that showing the provisioning expense as a separate line item was appropriate, even if within net revenue.

30. As mentioned above, if the ED is not simplified, some users feel presentation and disclosure requirements should be modified for short-term trade receivables and nonfinancial institutions. As proposed, they feel the disclosures may not provide relevant information about nonfinancial institutions and may distract the users from the core business of the institution.

31. Comparisons to other constituents – The comments above are generally similar to those received from other constituents. However, whereas the user focus is more on ensuring the impact on revenue is transparent, other constituents are more concerned about the presentation of revenue. They are pushing harder for an altogether scope out of their institutions and short-term trade receivables from a final standard. See paragraphs 31-34 of Appendix A.

Presentation and disclosure requirements

32. As is apparent from the paragraphs above, most of the comments received from users have been generally consistent with those from other constituents. The one ‘theme’ where the comments from the users and other constituents vary greatly relates to presentation and the types and level of detail of disclosures.

33. Generally, users agree with the presentation requirements. They like the contractual interest revenue, allocation of expected losses, and changes in estimates all being shown on separate line items. As mentioned above, however, some users would like impairment losses and bad debts expense (especially in relation to short-term trade receivables) to be shown as an expense that is not included within net revenue.

34. Also, the proposed disclosures are generally well received by users. In the outreach activities there was a general dissatisfaction from users with today’s

required disclosures. They were described as lacking transparency and being inadequate.

35. Hence, they agree that additional disclosure is needed and welcome the type of information being proposed. A few of the proposed disclosures are very popular with users: vintage information, loss triangle, and the non-performing loan disclosures. They commented that the non-performing loan disclosures would provide greater information about the quality of financial assets and also enable comparability across entities.

36. Some users did suggest that the presentation and disclosure requirements may be too voluminous in certain areas, or need refinement. For example, some users suggested that the disclosure requirements should be reduced for short-term trade receivables and nonfinancial institutions. The least supported (although still heavily supported) disclosure was related to stress testing.

37. Some users make the point that they believe stress testing information is particularly important because they believe it will help them understand when a regulator is likely to react and require more capital to be raised. That information is fundamentally important to their analysis of regulated entities. Some users, however, suggested that the disclosure for stress testing should be clarified in several ways:

    (a) If no stress testing is performed, include a requirement to disclose that fact.

    (b) Clarify what exactly is meant by stress testing as different jurisdictions may have different requirements.

    (c) Standardise the stress testing disclosure to make the information useful (ie comparable among entities).

38. Most users expressed their concerns that irrespective of the final impairment model and what disclosures are required, it is important that the disclosures be customised so that they provide information about the particular circumstances of each specific entity. They must provide transparency by presenting detailed

information about the assumptions used by management in the impairment approach. They stress the importance of providing specific information on management estimates to understand the methods, assumptions and inputs used to develop EL estimates. In other words, 'boilerplate' language is not useful in these types of disclosures, and the current disclosures under the incurred loss model provide very little information.

39. In addition to the support for the proposed disclosures, most users suggested other disclosures should be included in a final standard. There were several suggestions included in the various letters and other feedback, with no strong consensus for any particular disclosure. However, the most common suggestions (requested about 2 or 3 times each) were to disclose:

(a) incurred losses each period;

(b) original expected loss information (not just the changes in most recent estimates);

(c) loan information by segment including loan amount and impairment by geography, industry, and size of loan exposure;

(d) internal ratings structure and amounts at each rating;

(e) information about restructured loans (this was suggested more often than the other disclosures in outreach meetings. Users believe some entities restructure loans, keep them as performing, and never disclose to the public that such restructured loans were at one time non-performing, or on the verge of being non-performing).

40. Comparisons to other constituents – As might be expected, the disclosures best liked by users (vintage and loss triangle) are least liked by other constituents. And, whereas other constituents think the disclosures are too onerous and do not always provide relevant information, users think they need even more disclosures to understand management's estimates. See paragraphs 35-37 in Appendix A.

Convergence with US GAAP

41. Comparisons to other constituents – Many users commented on the importance of arriving at a converged model with the FASB. This was consistent with the comments received from other constituents. See paragraphs 42-45 of Appendix A.

Appendix A: Agenda Paper 9A from July 2010 Board Meeting

Purpose of this paper

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 and, by that date, the IASB had received 149 comment letters.

2. This paper provides a **summary** analysis of the comment letters that were received by the comment letter deadline, and identifies the main themes in the comment letters.

3. We continue to receive responses. In total 179 responses have been received as of the date of the posting of this paper. If we identify additional key themes in the letters received since 30 June, we will provide an update to the Board at a later meeting.

4. As the re-deliberations move forward, we will provide more detailed analysis of the comments received on each of the issues.

5. This paper does not provide a quantitative review of responses or attribute comments to individual respondents. Moreover, this paper does not address drafting suggestions received from respondents.

6. Appendix A provides an overview by type of respondent (reflecting comment letters received through 15 July 2010).

7. The IASB also undertook significant outreach activities during the comment period. The main themes arising from the outreach activities with preparers, auditors and regulators are consistent with those identified in this paper.

8. The IASB outreach also included targeted outreach with users of financial statements. This included individual meetings, group meetings and a user questionnaire. The staff will provide a summary of that feedback in a separate paper.

9. In addition, the IASB with the US Financial Accounting Standards Board (FASB) set-up an Expert Advisory Panel (EAP) consisting of credit risk experts to consider the operational issues arising from the proposals. Agenda paper 9B discusses a summary of the EAP discussions.

Key themes

10. Almost all respondents are in favour of the project to improve and simplify accounting for financial instruments. They are supportive of a move to an expected loss model for impairment requirements. Many favour focussing on impairment of financial assets, rather than addressing the broader issue addressed in the ED of amortised cost measurement.

11. Overall, the staff have identified the following main themes:

    (a) Strong support for moving towards an expected loss (EL) impairment approach (12-16).

    (b) The expected cash flow (ECF) approach in the ED is too difficult to apply operationally (17-24).

    (c) Certain measurement principles are too prescriptive or inconsistent with other parts of the ED (25-30).

    (d) Lack of special consideration for non-financial entities which may have mostly non-interest bearing financial instruments, and for investment-grade bond portfolios (31-34).

    (e) Presentation and disclosure requirements are too onerous and voluminous which causes information overload (35-37).

    (f) Practical expedients are generally welcome, but need to be more flexible, and certain definitions are too restrictive (38-41).

    (g) Convergence with US GAAP as well as following due process requirements are important (42-45).

Main themes identified

Strong support for moving towards an EL impairment approach

12. Many respondents agree that the incurred loss model has failed to provide useful and timely information about the performance and position of financial institutions in the recent past. Many cite, and agree with, the weaknesses of an incurred loss impairment approach identified in the ED's Basis for Conclusions.

13. As a result, many respondents agree that an impairment model measured using EL is an appropriate methodology (although not necessarily the ECF approach proposed in the ED – see below). Supportive reasons given include that an EL approach:

    (a) better reflects the economics of a lending transaction than an incurred loss impairment approach;

    (b) reflects how financial institutions manage credit risk, and hence aligns more closely with risk management systems than an incurred loss impairment methodology; and

    (c) will allow for credit losses to be recorded earlier as there is no need for any impairment trigger.

14. Respondents overwhelmingly reject an impairment approach based on fair values or a 'through-the-cycle' impairment approach mainly for the reasons noted in the ED's Basis for Conclusions.

15. A few respondents suggest maintaining the current incurred loss impairment approach and suggest that additional guidance might help. Reasons given for keeping an incurred loss approach include:

    (a) that an incurred loss approach is well understood, and that diversity in application can be addressed by increased and/or improved application guidance;

    (b) that an EL approach is inconsistent with both the IASB Framework and a cost-based measurement method;

(c) unease with the significant subjective management estimations that would be required using an EL approach. Many felt that such estimations would lead to earnings management thereby impacting the reliability (and auditability) of financial statements and hence the usefulness of information to investors; (although most respondents, and users in particular, note that the proposed disclosures alleviated some of these concerns); and

(d) the cost and/or operational complexity of an EL approach (see below).

16. Some respondents discuss whether the proposed ECF (or, more generally, an EL) approach would be pro-cyclical. Most state that any EL approach would be pro-cyclical. Although a few highlight this as a reason for not moving to an EL approach, the overwhelming number of respondents state that any appropriate impairment approach for financial reporting purposes would of necessity be pro-cyclical. Therefore they argue that impairment for financial reporting purposes should not be confused with prudential regulatory objectives or requirements.

The ECF approach is too difficult to apply operationally

17. Most respondents comment on, and express concern with, the operationality of the ECF approach. Many also state that the costs of implementing the ECF approach would be significant, and express the view that the costs would outweigh any benefits. Some state that the ECF approach, as drafted, could not be practically implemented.

18. Many cite the work of the EAP (agenda paper 9B describes the operational issues found by the EAP in more detail). Operational concerns include:

(a) application to open portfolios;

(b) lack of historical data;

(c) integrated EIR calculation; and

(d) requirement to maintain loss data relating to origination (arising from the EIR allocation mechanism proposed in the ECF approach – see below).

19. Some propose ways in which some of the operational challenges might be addressed, and some propose revised (or different) EL impairment approaches.

20. These suggestions will be presented in detail to the Board at later meetings.

21. One common suggestion is that the EIR approach in IAS 39 *Financial Instruments: Recognition and Measurement* should not be changed. Expected losses should be dealt with outside of the EIR calculation (that is, should be allocated over the life of the loan using another mechanism).

22. Operational reasons given include that the ECF approach requires the risk and accounting systems to be integrated. For example, expected future cash flows are required to be discounted using the discount rate calculated at origination, which includes initial expectations of credit loss. These risk and accounting systems are not currently integrated. Using an allocation mechanism other than the integrated EIR calculation would significantly reduce the implementation costs and ongoing operational burden. (See agenda paper 9B for more detail).

23. Other (non-operational) reasons for dealing with EL outside of the IAS 39 EIR calculation include that the estimates that are used in the IAS 39 EIR calculation are of a higher ‘quality’ than estimates of expected losses because EL requires estimations over the life of the instrument[1], and that credit risk is managed separately from the inputs required for the IAS 39 EIR calculation today.

24. Many respondents agree that estimating the EL over the life of the instrument is difficult (some say impossible), and may not result in an accurate estimate

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[1] Some respondents noted that there is an accounting principle in US GAAP that provides for EL modelling similar to the ED. It is found in American Institute of Certified Public Accountants’ Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3). Respondents state how difficult the SOP 03-3 model is to apply, and that many entities have never upgraded their systems in order to automate the requirements. They still keep the complex calculations on Excel spreadsheets.

depending on the length of life of the asset. However, rather than keeping the IAS 39 EIR calculation, some suggest to place a range for how far out one would estimate expected losses (eg 3-5 years). Another suggestion is to estimate the EL for that range, but then apply an average loss rate to the remaining expected life of the instrument/portfolio.

Measurement principles

25. Whilst some respondents agree with the treatment proposed in the ED to immediately recognise changes in estimates of EL in the statement of comprehensive income, most respondents feel this is inconsistent with the objective of the amortised cost measurement. They suggest that it may be more appropriate to allocate the change in estimate over the remaining life of the asset. Another suggestion is to take a partial 'catch-up' by immediately recording amounts that would have been recorded from the beginning of the instrument's life, and allocating the remainder over the remaining life of the asset.

26. Many respondents comment that the probability weighted average method for calculating EL is difficult and should not be the only method permitted. Several respondents suggest that a 'best estimate' or 'most likely' outcome approach may be better in certain situations (eg in the case of a single instrument instead of a portfolio of homogenous loans). The majority agreed that the standard should provide a principle, and that the probability-weighted average method could be one example of how to calculate EL. However, an entity should have flexibility to determine the best method for calculating its EL.

27. Many respondents note that the proposed approach may only be applicable for a portfolio of instruments because it may not be practically applied to a single financial instrument. Reasons provided for this argument include that a single financial instrument is issued only with the intention of receiving all the future cash flows.

28. Also, many respondents suggest that the wording in the ED is unclear as to whether the approach requires one to consider future information when estimating ECF. They find paragraphs 4, 7, 8, and B8 (at a minimum) in the ED confusing because they do not explicitly refer to the consideration of future events.

29. The majority of respondents agree that a 3-year lead time would probably be appropriate provided the operational issues described above could be overcome. Some respondents did not answer the question in the ED because they did not feel the current proposed approach could be applied regardless of the lead time.

30. A few respondents also comment that all parts of the IAS 39 replacement project should be implemented at the same time, and that early adoption of one part of the project should not be permitted.

Non-financial institutions, non-interest bearing financial instruments, and bond portfolios

31. Many respondents (especially those from non-financial institutions and those with a professional interest in non-financial institutions) comment on a need for a different approach for non-interest bearing financial instruments (eg short-term trade receivables) and non-financial institutions, in general. Reasons cited for a need for a separate, or further simplified approach, include:

    (a) The recent financial crisis was not caused by the application of the incurred loss impairment approach to such instruments, or by such non-financial institutions.

    (b) Short-term trade receivables are not created for the purpose of collecting interest.

    (c) Disclosure and presentation requirements in the ED are too onerous and do not provide useful information for these types of instruments.

    (d) Non-financial institutions (and even some smaller financial institutions) do not have the resources or the systems infrastructure to implement the ECF approach as drafted. Moreover, respondents felt the ECF approach would not provide a better result than the current incurred loss impairment approach for such institutions.

32. Most of the respondents that commented on the treatment of short-term trade receivables in the ED also provided their concerns on the proposed treatment of related revenue. They state that allocating the expected losses against revenue when first recording the receivable is inconsistent with the treatment for the other financial assets in the ED which allocate the expected credit losses over the life of the asset. They also state that the losses incurred on trade receivables are a business expense and should be shown separately from revenue.

33. Whilst most respondents that commented on the treatment of non-interest bearing short-term financial assets agree that such instruments should not be treated the same as financial assets created solely as a result of lending transactions, they provide different suggestions for how to resolve the treatment. Some suggestions received included:

    (a) provide more practical expedients (for example related to presentation and disclosure); or

    (b) scope out such transactions, and maybe even non-financial institutions in general, from the final standard.

34. Some respondents discuss a situation where an entity holds investment-grade bond portfolios. Based on published reports, they state that these types of bond portfolios have a historically low default rate. They argue that requiring the approach in the ED with all the proposed disclosures does not provide useful information for what is likely to be an immaterial amount of EL.

Presentation and disclosure requirements

35. Many responses received state that the presentation and disclosure requirements are too onerous and may not provide relevant or useful information for certain types of instruments or entities (eg non-financial institutions as discussed above). Also, many respondents suggest that the proposed disclosure

requirements will create information overload for investors. In particular, the disclosures that are most contested are:

(a) Stress testing – many respondents feel that the definition of stress testing is not clear enough in the proposal to ensure that the disclosures made would be comparable across entities (ie what constitutes the type of stress testing that should be disclosed). There is also concern that stress testing should not be included in the notes to the financial statements, but rather in management commentary because of its inherent unauditability.

(b) Vintage information – many respondents feel that the vintage information is only relevant for certain types of loans (eg mortgage loans) and is not operational for open portfolios. Furthermore, they felt this information would become irrelevant if a model that is more operational with open portfolios is further developed.

(c) Loss triangle disclosure – many respondents feel that the requirement in paragraph 19 is unclear. They feel that additional guidance is needed on what is a ‘class’ of financial assets, and on what is meant by ‘cumulative’ write-offs. Further, respondents state that the information needed for this type of disclosure is not currently maintained.

36. Many respondents feel that the objective for disclosures in paragraph 11 of the ED is appropriate. However, several feel that there should be flexibility in what sorts of disclosures are appropriate for each entity to meet that objective. Many respondents feel that providing the minimum requirements in paragraphs 13-22 of the ED creates a checklist for disclosures, but that the standard should not provide such a checklist.

37. Many respondents feel that the requirement in paragraph 13(a) of the ED to present gross interest revenue calculated using the effective interest method before taking into account the allocation of the initial estimate of expected credit losses is inappropriate. They feel that this requirement causes an entity to have

to perform two amortised cost calculations: one including EL and the other excluding EL.

Practical expedients and definitions

38. Many respondents agree that due to the complexity of the model, certain practical expedients are a welcome addition. However, most of those that agree also note that the requirement in paragraph B15 of the ED that the entity may use a practical expedient if its overall effect is immaterial removes the practicality of the expedient. They argue that having to meet the immateriality requirement essentially means one has to perform both methods in order to show the immateriality.

39. Many respondents comment that the definition of 'write-off' is too restrictive. They note that there may be financial assets for which the entity has no reasonable expectation of recovery, but the entity may not have ceased enforcement activities. For example, in some jurisdictions, the enforcement activities may take several years, but not permitting the entity to write off that asset may cause losses to be recorded too late.

40. Many respondents comment that the definition of 'non-performing' is also too restrictive. They note that entities should be permitted to define a non-performing asset in accordance with its own internal policies, and that the IASB should not provide a bright line which may not be consistent with the local jurisdiction or industry.

41. Many respondents comment that 'classes of financial instruments' should be better defined in order to ensure that disclosures are presented consistently across entities.

Convergence with US GAAP and due process

42. A number of respondents (especially, but not only, respondents from the US) comment on the need to arrive at a converged model with the FASB.

43. They indicate that it is too soon after the FASB's release of proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* to properly evaluate both models, but that having different models would cause great difficulty.

44. Some state that, even if the classification and measurement models are different, the boards should attempt to arrive at a common impairment approach.

45. As noted previously many respondents also mention the work done by the EAP. Some respondents state their concerns related to the future of the impairment ED and want some assurance that proper due process will be followed in the coming months related to the impairment project. Several respondents state that they would like the opportunity to comment on the final decisions made by the IASB as a result of the operational and other simplifications which may be written into a final standard arising from the EAP meetings and from comment letters.