International Financial Reporting Standards

Impairment of Financial Assets

ARG meeting

23 February 2011

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Impairment timeline

2009

2010

2011

December 2009 – June 2010

EAP meetings and outreach

► **Nov**
IASB ED published

► **Dec**
Expert Advisory Panel (EAP) formed

► **May**
FASB ED published

► **Jun**
IASB ED comment period ends

► **Sep**
FASB comment period ends and joint re-deliberations begin

► **Jan**
Joint supplementary document published

► **Jun**
Target completion

IASB original ED

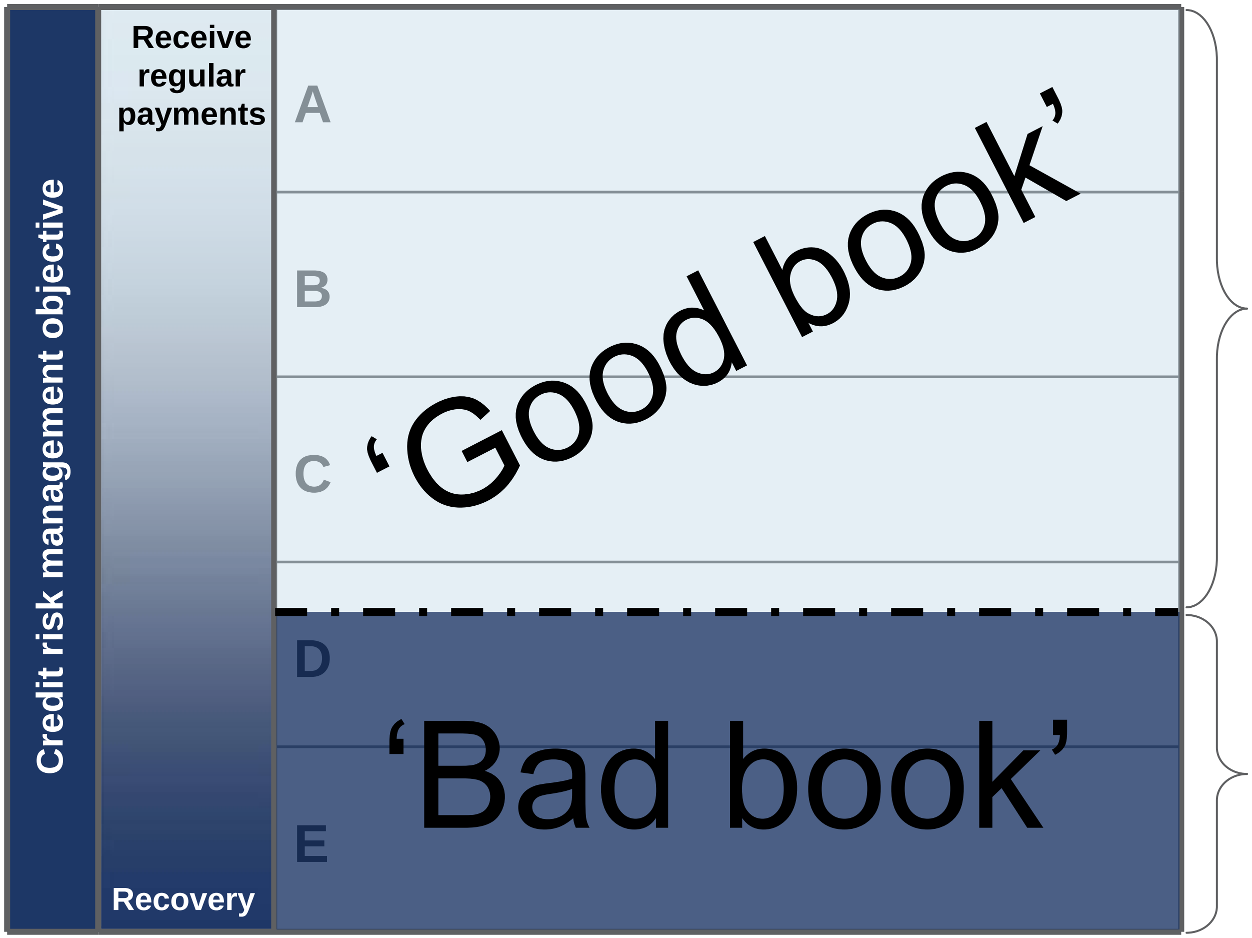
- Overall support for an expected loss approach
  - Initial loss expectations used to determine credit cost adjusted interest rate
  - Subsequent change in estimates recognised immediately
- Operational difficulties with specific proposals
  - Open portfolios
  - Integrated effective interest rate

Redeliberations

	IASB perspective	FASB perspective
Objective	Replicate the outcomes of the original ED in an operational manner for open portfolios	Deal with ‘too little, too late’ criticism
Desired result	Maintain link between expected losses and pricing	Ensure allowance balance always covers expected losses for the foreseeable future period

- Foreseeable future period is the period over which specific projections of events and conditions are possible
- Agreed jointly to use all reasonable and supportable information to determine expected losses

Overview of new proposals



Loan loss allowance

Higher of:

(a) Time-proportional amount of losses for the remaining life; and

(b) Expected losses in foreseeable future (no less than 12 months)

All expected credit losses

(a) IASB component

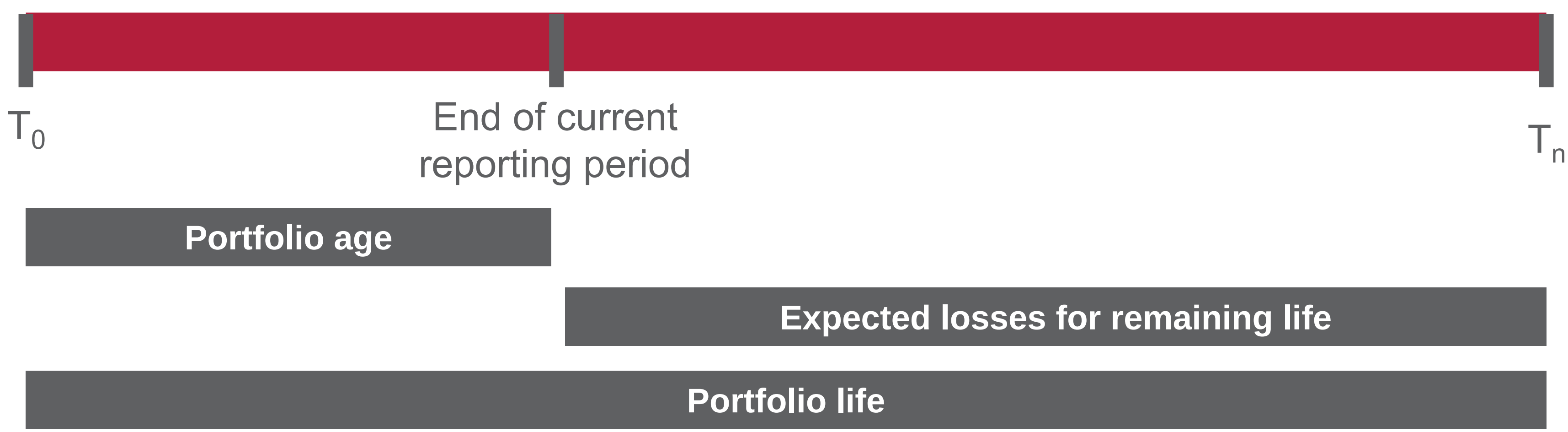
(b) FASB component

Mechanics of time-proportional approach

Choice

Approach	Allowance balance time-proportional calculation
Straight-line (undiscounted or discounted)	= Expected loss for remaining life x (Weighted Average Age / Weighted Average Life)
Annuity	= Annuity (given expected loss for remaining life and weighted average life) x Weighted Average Age

Components of the calculations



Presentation (IASB only)

- Changed from original ED
- Separate line items on the statement of comprehensive income:
  - Interest revenue (calculated using effective interest rate without adjustment for expected losses)
  - Impairment losses (including reversals of impairment losses)

Disclosures (IASB only)

- Reconciliation of change in allowance balance for the ‘good book’ and the ‘bad book’, including transfers
- Reconciliation of nominal amount in the ‘bad book’
- For the ‘good book’ (5 years):
  - If floor is used, difference between floor and time-proportional amount
  - Total nominal amount
  - Total expected credit losses for the remaining life
  - Impairment allowance
- Comparison of expected loss estimates and actual outcomes

Disclosures (IASB only)

- Description of internal credit risk management processes
- Criteria for ‘good book’ / ‘bad book’ differentiation
- Disclose by credit risk rating grades:
  - Nominal amount of assets
  - Total expected credit losses over the remaining life and those for the foreseeable future
- Information about internal credit rating grades, including how grades are assigned

Next steps

2011

►January
Supplementary document published

►1 April
Comment period ends

►June
Target completion

- Continue discussions on aspects of the original ED not affected by the supplementary document
- Outreach activities

Questions for discussion

- ‘Good book’ / ‘bad book’:
  - Do you agree with the concept of the split between ‘good book’ / ‘bad book’ which affects timing of loss recognition?
  - Does it help that the good/bad book policy is disclosed?
- ‘Floor’ and foreseeable future:
  - Do you believe there should be a ‘floor’ amount for the impairment allowance on the ‘good book’?
  - Do you agree that the foreseeable future concept is an appropriate basis for the floor?
  - Should the ‘floor’ be a specific time period (eg 18 months, 2 years)?
- Proposed presentation and disclosures:
  - Is all the proposed information useful and appropriate?
  - Are there any other disclosures that would be useful? If so, what are they and why would they be useful?

Questions for discussion

- Do you agree that the common solution proposed by the boards provides useful information? Why or why not?
- If not, do you have a preference for the models developed by either the IASB or the FASB?

Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.