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Staff Paper

Contact(s)			
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)207 332 2743
	Sara Glen	sglen@ifrs.org	+44 (0)207 246 6933
	Jana Streckenbach	jstreckenbach@ifrs.org	+44 (0)207 246 6473
	Chris Roberge	ceroberge@fasb.org	+1 203 956 5274
	Rosemarie Sangiuolo	rsangiuolo@fasb.org	+1 203 956 5426

Project **Accounting for Financial Instruments: Impairment**

Topic **Credit Risk Management Approach: Initial Feedback Summary**

Introduction

1. See the Cover Memorandum, IASB Agenda Paper 4 / FASB Memorandum 108, for a brief background on the topic.

2. On 1-2 August, members of the IASB and FASB as well as staff held a meeting predominantly with credit risk managers from banks from different jurisdictions, as well as some regulators, to obtain initial feedback on the 'three-bucket' approach that utilises credit risk management systems (Impairment Summit). The discussion focused on the operational aspects of the approach. The staff have had subsequent follow-up discussions with the participants of the Impairment Summit.

3. On 5 August, members of the IASB as well as IASB and FASB staff held a meeting with the IASB's Financial Instruments Working Group (FIWG). The purpose of the discussion was to obtain initial feedback on the conceptual aspects of a credit risk management approach.

4. The purpose of the following memo is to summarise the feedback received at these meetings. The memo is structured as follows:

   (a) key themes that emerged at the meetings;

   (b) feedback received at the Impairment Summit and through the follow-up discussions; and

   (c) feedback received from the FIWG.

This paper does not have a question for the boards – it is for information purposes only.

Overall summary and key points

5. Participants at both the Impairment Summit and the FIWG meeting supported the notion of credit deterioration and a 'three-bucket' approach that makes the maximum use of credit risk management systems.

6. The preferred approach at the Impairment Summit would directly align the buckets with the credit quality of financial assets such that each bucket contains assets of like credit quality regardless of whether those assets were newly originated or purchased or had been held by the entity for a period of time. Participants indicated that requiring initial recognition of all financial assets in Bucket 1 would create an operational 'tracking' issue for loans originated at credit quality levels below the dividing line between Bucket 1 and Bucket 2. See IASB Agenda Paper 4B / FASB Memorandum 110 for a detailed discussion related to the 'tracking issue'. Those participants who typically originate financial assets of a lower credit quality would only support this approach if the dividing line between Bucket 1 and Bucket 2 is set low enough so that most of their financial assets would fall into Bucket 1 on initial recognition.

7. The FIWG was strongly opposed to an approach that entails recognition of day-1 lifetime expected losses (EL) for loans originated on market terms. Most FIWG members strongly believed that all loans priced on market terms should start in Bucket 1 and move to lower buckets as they deteriorate. However, see paragraph 67 below for an alternative view presented at the FIWG. The FIWG challenged the operational argument articulated at the Impairment Summit.

8. Participants at the Impairment Summit and the FIWG both believed that the distinction between the buckets should be based on a principle rather than a bright line.

(a) Participants at the Impairment Summit believed that the principle should be mainly grounded in probabilities of default (PD) that represent the most direct reflection of the likelihood of collecting contractual cash flows. They did not support IAS 39 like indicators of when financial assets should move between the buckets.

(b) The FIWG felt that indicators, or cues, are necessary to operationalise the principle and ensure consistent application of the model.

9. Participants at the Impairment Summit indicated that a 24-month EL allowance is operationally feasible for Bucket 1, but strongly preferred a 12-month EL allowance. The FIWG felt that both approaches are arbitrary but recognised that a 12-month EL allowance is more aligned with existing practice in many jurisdictions.

10. Participants at the Impairment Summit and the FIWG both advocated a single impairment model for all types of financial instruments. The FIWG expressed concerns about the ability to apply the model to particular instruments (eg debt securities). The participants at the Impairment Summit did not express such concerns. The application of the 'three-bucket' approach to debt securities was not thoroughly discussed at either meeting.

Impairment summit

General comments

11. Overall, the group expressed strong support for an approach that is grounded in credit risk management practices. They felt that the model should make the maximum use of existing metrics, such as PDs, internal and external credit ratings, and regulatory definitions. This is because the existing metrics represent the best available approaches to credit risk assessment and reflect how credit is assessed in practice and such a model would be operationally simple allowing existing systems to be used to implement the proposals.

12. The overall preference was to ground the model in PD levels, with additional consideration given to credit ratings and regulatory credit grading categories

(or delinquency status and work-out programmes for consumer loans where PDs are not available) such that each bucket is directly aligned with respective credit qualities regardless of whether financial assets were newly originated or purchased or had been held by the entity for a period of time. Hence newly originated or purchased loans would also be allocated to buckets based on their credit qualities.

13. The participants felt that the distinction between the buckets should be principle-based rather than a bright line. The principle is that PD levels reflect the likelihood of collecting contractual cash flows. The participants did not support IAS 39 like indicators of when financial assets should be transferred between the buckets.

14. The participants emphasised that the assessment of credit quality and PDs is a holistic process that takes into account all available relevant information. They believe that the standard should reflect existing best practices and explicitly require consideration of all available relevant information. The participants also felt that the standard should allow for a judgement overlay so that management could take into account any extra available information that is not embedded in the credit risk models. They noted that this was consistent with how credit risk is assessed and managed in practice.

15. The group expressed a strong belief that their preferred approach can be applied by all financial institutions to all financial asset classes. This is because all financial institutions will have a way to distinguish high credit quality financial assets from those that cause concern.

16. The group expressed a view that in comparison to the incurred loss model, the allowance for loan losses under their preferred approach would be significantly higher. They believed most of the incremental allowance would come from the allowance for loss in Bucket 2 because Bucket 1 would by definition have a very low probability of default and thus low EL.

Single impairment model

17. The group did not express any concern about the ability to apply the preferred approach to different loan classes, provided that the definition of the buckets was not solely based on PDs. In other words, the definition could contain reference to other characteristics such as regulatory risk grading categories so that entities that did not calculate PDs for every asset class would be able to consistently apply the model. The group was not concerned about applying this approach to debt securities, although the topic was not thoroughly discussed. The operationality of this approach for debt securities held by nonfinancial institutions was not explored at this meeting.

Approach to bucketing and transfer between the buckets

18. The group discussed and expressed their views on the following interrelated aspects of the bucketing of financial assets:
    (a) how to draw the line between the buckets;
        (i) absolute levels of credit quality versus deterioration;
        (ii) basis for bucketing;
        (iii) principle versus a bright line; and
        (iv) additional guidance;
    (b) where to draw the line between the buckets; and
    (c) how to treat loans originated or purchased at lower credit quality levels (see IASB Agenda Paper 4B / FASB Memorandum 110 for further discussion on this topic).

How to draw the line between the buckets

19. There was strong support for an approach that would allocate all loans to the buckets based on the credit quality of the loans. For example, commercial loans of credit quality AAA- X would be in Bucket 1, X-XX rated loans would be in Bucket 2 and XX-XXX rated loans would be in Bucket 3 regardless of the level of credit quality at which the loans were originated or purchased. They noted

that this approach would be best aligned with the existing credit risk management practices.

20. The group discussed an appropriate basis for bucketing. The group felt that 'bucketing' should be grounded in existing credit metrics as much as possible with PD levels as the anchor with additional consideration of other qualitative characteristics such as:
    (a) internal or/and external credit ratings;
    (b) US regulatory definitions (pass, special mention, substandard, doubtful, loss);
    (c) delinquency status of retail loans augmented by factors such as loan to value ratios, credit scores, work out programmes or some combination of those.

21. The group recognised that a solely-PD-based approach would not work for retail loans that are typically managed on a delinquency basis, rather than a PD basis. Hence the group agreed that any final bucketing approach should also accommodate retail loans (eg via consideration of delinquency and other characteristics).

22. The group emphasised that in their view LGD levels should not be taken into account for bucketing of loans (ie determine whether remaining lifetime EL or less than lifetime EL is recognised). Rather, LGD levels should affect measurement of EL.

23. The group agreed that the dividing line between Buckets 1 and 2 should not be expressed in terms of specific PD levels or credit ratings. Rather, the line should be based on a principle grounded in PDs (ie the likelihood of collecting contractual cash flows) and expressed qualitatively. The group did not make any specific suggestions as to how the principle might be articulated. The group recognised that a principle-based approach may give rise to concerns about comparability however they felt that transparent disclosures should alleviate any such concern and, with time, would enhance consistent application.

24. The group discussed whether indicators are necessary to support the principle. The group felt that a checklist type approach would not be helpful. At the same

time, the group was in agreement that the assessment of credit quality and PDs is a holistic process that considers a wide range of available information. In other words, various indicators would have informed the PD levels and the assigned credit ratings. Hence the standard should be clear that management must consider relevant information and assess all that information in a holistic manner. The standard could give examples of such relevant information.

25. The group discussed whether 'watchlists' could be a useful indicator. The group noted that loans may be put on a 'watchlist' for different reasons and that the term can mean different things in different jurisdictions. For example, a loan can be placed on a 'watchlist' due to a severe drop in the credit rating or a *potential* change in the credit rating or merely due to the size of the loan. Hence the group agreed that 'watchlists' when used as a means of identifying heightened credit risk could be considered as part of all available information but, in and of themselves, should not be determinative.

26. The group also felt it is important that the standard explicitly allows management judgement in the assessment of credit quality. In other words, it is not just the PD or delinquency status that determines the ultimate bucketing. Management should be allowed to consider extra available information to assess credit and thus determine bucket allocation.

Where to draw the line between the buckets

27. The group expressed mixed views as to *where* the line should be drawn. Suggestions ranged from an equivalent of S&P's BB- to CCC+ credit rating. It was noted that, in their preferred approach, drawing the line at the non-investment grade level would result in significant levels of commercial business being classified at Bucket 2 quality and thus they felt this would not be appropriate.

28. The group discussed the 'cliff effect' that arises upon a transfer of loans from Bucket 1 into Bucket 2. The group felt that typically the lower the line between the buckets, the lesser the 'cliff effect'. This is primarily because the lower the line between Bucket 1 and Bucket 2, the smaller the difference between a 12 or 24 month EL and a remaining lifetime EL. Furthermore, participants noted that

a 'cliff effect' already exists to a certain extent today and were not overly concerned about the 'cliff effect', assuming the line between Buckets 1 and 2 is sufficiently low.

Initial classification of financial assets with lower credit quality

29. The approach outlined above works well if loans are always 'bucketed' based on their credit quality, including on initial recognition. It does not however accommodate the concern that it is inappropriate to recognise lifetime EL on the initial recognition of financial assets priced at market.

30. The participants felt that this concern would be less of an issue for open portfolios. Some participants challenged consideration of pricing as a conceptual argument.

31. The group argued that the approach that requires initial recognition of all loans in Bucket 1 is challenging operationally. This is because such an approach would require tracking of the assets originated at the credit quality level below the line between Bucket 1 and Bucket 2.

32. An example. Suppose that a principle-driven line means that an entity places AAA-X rated assets into Bucket 1 and X-XX rated assets in Bucket 2. If an asset is originated at AA level, it goes into Bucket 1. If it subsequently *deteriorates* to XX level, it is transferred into Bucket 2. Suppose another asset is *originated* at XX level. A model that puts all loans into Bucket 1 on initial recognition would require that this loan is allocated to Bucket 1). As a result, an entity would need to be able to distinguish which XX-rated loans have deteriorated to this level and those that have been originated at this level to determine the appropriate allowance balances.

33. An aside. Another way to address the lifetime loss recognition issue would be to require that all loans are allocated to buckets based on their credit risk characteristics <u>but</u> those that are originated into Bucket 2 are treated differently for impairment purposes, ie impairment is measured at other than lifetime EL. Either way, the tracking issue arises.

34. Suppose the loan that is originated at X level subsequently deteriorates to XX level and is transferred into Bucket 2. Suppose subsequently it recovers back to

X level at which it was originated. At this point in time, ideally it must be transferred back to Bucket 1 (as now there is no overall deterioration) which means that an entity must continue to distinguish this loan from loans that were originated above the X level. This means that loans would have to be tracked from origination until derecognition.

35. The group stated that current credit risk systems (other than those used in institutions applying the Basel II Advanced Internal Ratings Based Approach – AIRB) do not track credit quality back to origination. Rather, they only contain point-in-time forward-looking information. Hence a model that requires tracking to origination will create operational challenges. The group also stated that an approach that requires all originated or purchased loans to be classified and accounted for in Bucket 1 may require tracking the losses on an individual loan basis to identify when a subsequent change in credit quality or delinquency status occurs.

36. The group discussed whether the level at which the line between Bucket 1 and Bucket 2 is drawn might alleviate the issue. In other words, if the line is drawn low enough such that few assets are originated at Bucket 2 credit quality levels, would this mitigate the operational challenge? The group agreed that this would reduce the number of loans requiring tracking. However they concluded that ultimately where the line is drawn does not resolve the operational concerns as long as some loans fall into Bucket 2 on origination. This is because in any case system changes will be required and they will need to be sufficiently robust to comply with relevant requirements (eg Sarbanes Oxley internal control requirements).

37. The group discussed whether the tracking issue would be alleviated if an entity was only required to track loans originated at Bucket 2 credit quality levels until the first deterioration and treat them as all other Bucket 2 loans past that point. Again, the group felt that any tracking is an issue and would require costly system changes.

38. The group recognised that if all loans are bucketed in accordance with their credit quality characteristics on initial recognition that would lead to recognition of lifetime credit losses on assets originated at Bucket 2 credit quality level.

They noted that there was a trade off between this result and the complexity of being able to track loans.

Measurement considerations

Defining EL

39. The staff clarified that the boards tentatively decided to define EL as any shortfalls in the contractual cash flows, ie both losses of principal and interest[1].

40. Some attendees stated that this would not be consistent with current systems and the current non-accrual guidance in US GAAP. That would also require a change to the current loss rate methodology as currently the loss rate is applied only to the principal.

41. All agreed that any final standard should provide a clear definition of EL. Participants also felt that it should be consistent with existing industry definitions.

Bucket 1 measurement

42. The group discussed whether the allowance for Bucket 1 should be measured at 12 months' or 24 months' worth of EL. The group indicated that from an operational standpoint either calculation is operationally feasible. Yet, there was a strong overall preference for measurement of credit impairment losses for assets classified in Bucket 1 based on 12 months' worth of EL. This is because many banks already have 12-month data and this aligns with:

    (a) risk management practices;

    (b) regulatory requirements; and

    (c) financial reporting period / budgeting.

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[1] At a joint meeting in April 2011, the boards discussed whether to discount a loss estimate and, specifically, whether expected losses should be measured as principal only on an undiscounted basis or as all shortfalls in cash flows (both principal and interest) on a discounted basis. The boards tentatively decided that the measurement of expected losses should reflect the effect of discounting. Any finalised guidance will clarify that a variety of techniques can be used to measure this amount.

43. Besides, the group felt that estimates over a shorter time horizon would be more accurate.

44. The group agreed that even though it would be helpful to leverage existing systems, in particular Basel II, in calculating the allowance for Bucket 1, there are important differences between the Basel II calculations based on 1 year EL for regulatory capital purposes and use of a 12-month EL measure for impairment accounting purposes. For example:

    (a) For Basel II parameters, an entity considers loss expectations through-the-cycle rather than assessing anticipated losses given the point in the cycle.

    (b) Basel II framework requires the downturn of ‘loss given default’ (ie ‘stressed’ LGDs, or worst-case scenarios), whereas EL would incorporate expectations of the future (ie downturn or upturn).

    (c) Basel II parameters have floors that would need to be removed for accounting purposes.

    (d) Basel II definition of default (for the purposes of determining LGD) may differ from the accounting definition; therefore it is important to provide a clear definition of ‘default’. The group emphasised it is critically important that the same definition of default is used for accounting purposes.

45. The group believed that regardless of whether the allowance for Bucket 1 will be set at 12 months’ or 24 months’ worth of EL, it will typically be a small number compared to the overall allowance. This is because PDs on assets in Bucket 1 will be very low notwithstanding the fact that Bucket 1 will typically be the largest in terms of the loan volume.

Other considerations

46. The group discussed the interaction between the magnitude of the allowance for Bucket 1 and the ‘cliff effect’ that arises upon the transfer of loans from Bucket 1 into Bucket 2. The group noted that the higher the allowance balance

in Bucket 1, the less of a 'cliff effect' results from the transfer into Bucket 2. Hence, there is less of an inherent deterrent to transfer the loans into Bucket 2.

47. The group discussed if double counting of expected losses could arise upon a transfer of loans from Bucket 1 into Bucket 2. That would be the case if the loss rate in Bucket 1 were not updated to reflect the transfer of lower quality loans out of Bucket 1 implicitly improving the overall quality of Bucket 1. The group felt that the effect of double counting, if any, would be negligible. They also believed that most firms would perform a bottom-up calculation avoiding the double counting issue.

48. The attendees expressed a view that the assessment of credit impairment losses in Buckets 1 and 2 could be based on an individual instrument unit of account or on a pooled basis whereas Bucket 3 would always be individually identified loans. The group however saw a distinction between (1) individually identifying an impaired loan (eg based on delinquency status) and (2) individual measurement of a loss. For example, in certain retail activities, loss is not measured individually – although the impairment situation is individually identified based on delinquency status. Also, because the definition of the buckets during the discussions evolved around an assessment of credit risk (or delinquency status for retail loans) which is often undertaken at an individual asset level, the group felt that a lot of the analysis of transferring between Buckets may be done on an asset-by-asset basis (even for retail portfolios).

49. Even though Buckets 2 and 3 would both be measured using the remaining lifetime EL, there was a widely held view that Buckets 2 and 3 should remain separate. This was because the group viewed Bucket 3 as having a PD of (close to) 100%, with very little chance (if any) of moving back out of Bucket 3 whereas loans in Bucket 2 could move back up into Bucket 1. This would also mean that EL in Bucket 3 would be measured based on recovery cash flows. Hence the group felt that the distinction between Bucket 2 and Bucket 3 would encompass important informational content.

Disclosures

50. Generally the group felt that the information provided should be balanced with the operational effort required to produce the disclosure and the volume of information to be included in the financial statements.

51. In particular, some members stated that detailed roll-forwards of allowance balances on each bucket by financial asset class would be very challenging to produce operationally and result in information overload. They noted that the current systems are more suited to produce point-in-time information but not information about changes over time. The group stated that where the change is significant, financial institutions would undertake sufficient analysis to be able to explain the change in the financial statements, otherwise information over time would involve tracking at the individual asset level and require large volumes of data storage. The group felt that the required level of granularity would determine both the degree of operational complexity and the usefulness of information.

52. The group did not think that disclosure of EL over the remaining life for each bucket would be operationally challenging, however they emphasised that entities might use a proxy assessment of lifetime EL for disclosure purposes.

53. Overall, the group supported the idea of transparency. The group also suggested that consideration should be given to Pillar 3 disclosure requirements mandated by Basel II in developing disclosures related to the impairment model.

Financial Instruments Working Group

General comments

54. Generally, the group was supportive of the 'three-bucket' credit risk management approach pursued by the boards. They felt that this approach represents an improvement and simplification compared to the model proposed in the joint supplementary document, *Financial Instruments: Impairment* issued in January 2011. The group supported the underlying notion of deterioration of the credit quality of the financial assets.

55. The group felt that the greatest challenge of the approach is defining the principle for the transfer of financial assets between the buckets and noted that it was difficult to establish a conceptual basis for that transfer.

Single impairment model

56. In principle, the group unanimously supported the development of a single converged impairment model for all financial assets subject to impairment accounting. At the same time, concerns were expressed as to *whether* and *how* the 'three-bucket' approach currently pursued by the boards should be applied to particular classes of financial assets, such as:

    (a) debt securities;

    (b) consumer loans;

    (c) trade receivables;

    (d) short-term revolving facilities; and

    (e) undrawn loan commitments.

    Some members felt that implementation guidance for various types of financial assets will be needed to address these concerns.

57. Some members also felt that in certain cases the model might produce incomparable performance results and disadvantage certain business models. For example, entities that mainly carry short-term financial assets will not be comparable to entities that carry long-term financial assets. This is because for short-term financial assets even in Bucket 1, a day-1 charge and the allowance will be closer to lifetime EL than for longer life financial assets.

Approach to bucketing and transfer between the buckets

58. The group believed that a well-defined principle for transfer between the buckets is critical for the model being developed. They noted that operationality and clarity should be the key focus. Whilst they supported the overall notion of credit deterioration, they felt that the principle as currently stated does not provide sufficient basis to inform a decision as to when it is

appropriate to transfer financial assets between the buckets. Some members also felt that the principle as currently stated fails to articulate the conceptual basis as to why at a point in time it becomes appropriate to move from less than a lifetime EL (eg 12 or 24 months) to the remaining lifetime EL.

59. The group discussed how the transfer principle might be articulated. No specific suggestions were made. The following views were expressed:

    (a) Generally, the group rejected an approach to bucketing whereby the number of notches by which the financial assets have been downgraded would drive a transfer into Bucket 2. Rather, the group felt it is more appropriate to transfer loans into Bucket 2 once they fall below a particular level of credit quality.

    (b) At the same time, most of the group felt that the pricing of financial assets matters. Those that did, believed that a financial asset is impaired and should move into Bucket 2 when its credit quality deteriorates down to a level that it would have been priced differently if originated today.

    (c) The group discussed whether the principle could be built around the notion of a 'watchlist' rather than credit deterioration. The group did not express much support for the 'watchlist' approach. This is because they felt that 'watchlists' are typically applicable to wholesale loans but not consumer loans. At the same time, the group recognised that a credit deterioration principle is also difficult to apply to consumer loans because they are typically managed on a delinquency basis.

60. The group agreed that indicators and guidance of when it is appropriate to move financial assets between the buckets are necessary to operationalise a principle. The group discussed various potential indicators. The following views were expressed:

    (a) The group generally agreed that it would be appropriate to look at PDs, external credit ratings and regulatory classification. The group recognised however that this approach would not work for consumer

loans managed on a delinquency basis. Some members also emphasised that internal PDs and external credit ratings are lagging indicators and hence the standard should require that management looks out for other indicators.

(b) Some members believed that management should consider market values, where available, as markets quickly respond to changes in credit quality. The group recognised, however, that market values reflect changes in other variables and not just credit risk. In addition, it could be challenging to assess at which point in time market indications become so pervasive that an entity must take them into account. There was no appetite for the notion of significant or prolonged decline in fair values and the like. The group generally agreed that an entity should consider market values but should focus primarily on credit risk indicators.

(c) The group discussed whether renegotiations and extensions of credit on the same terms are indicators of impairment. They felt these situations should be assessed on a case-by-case basis.

(d) The group discussed whether support from the parent entity or other affiliates should be taken into account. The group felt that, from the lender perspective, it does not matter where cash flows come from hence if support from the parent entity or other affiliates is available, financial assets are not impaired. They felt however that if repayment depends on such support, this fact should be disclosed.

61. The group discussed whether it is appropriate to transfer entire portfolios, group of loans or individual loans when indicators arise. The group generally agreed that the appropriate unit of transfer depends on specific facts. They agreed that there may be circumstances when a transfer could occur at a group level such as when an event has occurred that affects an entire portfolio (eg all loans to a town affected by a severe flood).

62. The group felt that regardless of the principle and indicators, a degree of management judgement should be allowed. Some members suggested that any

final standard should provide real life examples of where judgement overlay in the assessment of credit quality is appropriate.

63. Some members felt it is not that critical *where* the line between the buckets is drawn. Rather, it is important that the principle and the indicators are clear, operational and can be applied consistently.

64. Finally, some members felt it might be helpful to develop the principle and indicators of transfer and to test them on the basis of real life scenarios.

Initial classification of financial assets with lower credit quality

65. The group discussed whether financial assets originated at lower credit qualities should start off in Bucket 1 or below.

66. Most members were troubled by day-1 recognition of lifetime EL that would be a result of initial classification in other than Bucket 1. They generally felt that if a financial asset is originated on market terms, the recognition of day-1 loss is not appropriate. These members believed that all financial assets should start in Bucket 1 and then move into Buckets 2 and 3 if and when they deteriorate. These members would like to see disclosure of credit quality of financial assets in Bucket 1. Finally, they believed that assets originated at lower credit qualities would typically constitute separate portfolios and hence should be possible to track.

67. The minority view was in favour of the model where the buckets are aligned with the absolute levels of credit quality. Hence financial assets originated at lower credit qualities will start off in Bucket 2. These members did not have a concern about day-1 losses because they did not support the idea of revenue recognition driving the timing of credit loss recognition. Some members believed that day-1 losses will not have an impact on a stable portfolio.

Bucket 1 measurement

68. Generally, the group struggled to see a conceptual basis for a provision on Bucket 1 assets, but could accept it as a pragmatic solution. Some felt the Bucket 1 allowance is akin to a general provision. Others thought it is similar

to the 'incurred but not reported' concept today except that the loss emergence period will be set by the standard.

69. The group did not express *strong* views as to whether a 12-month or 24-month based allowance should be required on Bucket 1. Many felt that either provision is arbitrary. At the same time, the group *did favour* a 12-month allowance due to the following reasons:

    (a) 12 months allowance is more aligned with practice today;

    (b) 12 months allowance is more aligned with Basel requirements;

    (c) 24 months would constitute most of the lifetime for some consumer loans.

Other comments

70. Some members requested that the standard should be clear as to whether and how planned sales of debt securities as a result of credit deterioration should be taken into account under the impairment model.

71. The group did not discuss disclosures that should accompany a 'three-bucket' approach.