

STAFF PAPER

27 February–29 February 2012

REG FASB | IASB Meeting

Project	Financial Instruments: Impairment		
Paper topic	Cover Memo		
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Background

- The general ‘three-bucket’ impairment model being developed initially categorises all financial assets (other than those purchased with an explicit expectation of credit losses¹) in Bucket 1. When the assets have deteriorated by a more than insignificant amount and it is at least reasonably possible that all or some of the contractual cash flows may not be collected, they are moved into Bucket 2 or Bucket 3. Purchased credit-impaired assets are categorised in

¹ For the IASB, the scope of these assets will be similar to what is used in existing IFRSs (ie assets purchased at a deep discount that reflects incurred credit losses). The FASB requested the FASB staff to also explore an approach whereby the scope of purchased financial assets would include assets that, since origination, have experienced a more than insignificant deterioration in credit quality and for which the likelihood of default is such that it is at least reasonably possible that all or some of the contractual cash flows may not be collected.

IASB Agenda ref	4
FASB Agenda ref	135

Bucket 2 or 3 upon acquisition and are accreted to cash flows as expected on initial recognition.

Issues addressed

2. In continuing to develop the ‘three-bucket’ impairment approach, the following papers have been prepared for the February 2012 meeting:

- (a) IASB Agenda Paper 4A/FASB Memorandum 136: this is a joint paper to be discussed with the FASB. This paper addresses whether financial assets should move up to Bucket 1, and if so, under what circumstances. The scope of the paper is all financial instruments except trade receivables that are initially classified outside Bucket 1 (per the agenda papers listed below).
- (b) IASB Agenda Paper 4B/FASB Memorandum 137: this paper has joint sections and a FASB-only section. The joint discussions on this paper will cover:
 - (i) whether trade receivables should follow an expected loss model; and
 - (ii) how the general impairment model is applied to trade receivables that have a significant financing element.

The FASB-only section of this paper covers how the general three-bucket model will be applied to trade receivables that are not considered to have a significant financing element.

- (c) IASB Agenda Paper 4C: this is an IASB-only paper and discussion. This paper addresses the application of the general impairment model to trade receivables that are not considered to have a significant financing element.