

# STAFF PAPER

**16 July– 20 July 2012**

REG FASB | IASB Meeting

<b>Project</b>	<b>Financial instruments: Impairment</b>		
<b>Paper topic</b>	Impairment—Disclosures		
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This paper has been prepared by the staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or IASB. It does not purport to represent the views of any individual members of either board. Comments on the application of US GAAP or IFRSs do not purport to set out acceptable or unacceptable application of U.S. GAAP or IFRSs. The FASB and the IASB report their decisions made at public meetings in FASB *Action Alert* or in IASB *Update*.

## Purpose

1. The purpose of this memorandum is to discuss disclosures for the three-bucket impairment model being developed by the Boards.
2. The staff is recommending both quantitative and qualitative disclosures. In addition, the staff has developed disclosures designed to enable users of financial statements to compare purchased credit-impaired assets ('PCI', i.e., those purchased with an explicit expectation of loss) to other assets.
3. The staff intends these disclosures as a complement to what currently exists in US GAAP and IFRSs<sup>1</sup>. The recommended disclosures address the new elements of the impairment model, namely the expected loss data and credit migration between the three buckets. Therefore, rather than create a new set of disclosures for credit risk and management, the staff has attempted to focus these

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<sup>1</sup> See Appendix in IASB Agenda Paper 5B for a listing of IASB-only recommended disclosures and how they relate to requirements in IFRS 7.

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recommended disclosures on these two unique elements of the proposed impairment model.

4. This memorandum is organized as follows:
  - (a) Background – Three-bucket Model
  - (b) Objectives
  - (c) Disaggregation Level for Disclosures
  - (d) Disclosures Recommended and Feedback
  - (e) Disclosures Considered but Not Recommended
  - (f) Summary of Recommended Disclosures
  
5. This memorandum also contains the following appendices:
  - (a) Appendix A – Additional background on the FASB Credit Quality Disclosures, the FASB Exposure Draft (FASB ED)<sup>2</sup>, the IASB Exposure Draft (IASB ED)<sup>3</sup> and the joint Supplementary Document (the SD)<sup>4</sup>
  - (b) Appendix B – Illustrates the staff’s disclosures used for outreach activities

There are no questions for the Boards in these appendices.

## Background – Three-bucket Model

6. Since the issuance of the FASB and IASB EDs and the SD, the IASB and the FASB have jointly deliberated a new expected loss impairment model. An expected loss model is more responsive to changes in information that affect

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<sup>2</sup> Published in May 2010, the FASB Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

<sup>3</sup> Published in November 2009, the IASB Exposure Draft, *ED/2009/12 Financial Instruments: Amortised Cost and Impairment*.

<sup>4</sup> Published in January 2011, the joint supplementary document, *Financial Instruments: Impairment*.

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credit expectations, such as past events, current conditions, and reasonable and supportable forecasts.

7. Deterioration of credit quality will be captured through an approach that generally requires recognition of a 12 months' expected credit loss until transfer criteria (including deterioration) have been met to recognize a lifetime expected loss. In the general model<sup>5</sup>, financial assets will move between buckets (specifically from/to Bucket 1 to/from Bucket 2 or 3) depending on whether the transfer criteria are met. If the transfer criteria are met, the assets are categorized in Bucket 2 or 3 (with a lifetime expected credit loss recognized). If the transfer criteria are not met, the assets are categorized in Bucket 1 (with 12 months' expected losses recognized). Assets should be moved out of Bucket 1 when they have met the transfer criteria, defined as the circumstances under which:
  - (a) There has been a more than an insignificant deterioration in credit quality since initial recognition; and
  - (b) It is at least reasonably possible that some or all of the contractual cash flows may not be collected.
8. There are some exceptions to the general three-bucket model. All PCI financial assets will immediately and always be categorized in Bucket 2 or 3, and only changes in lifetime expected losses will be recognized. There will be no loss or impairment allowance recognized upon initial recognition of the asset – rather the effective interest rate will reflect initial credit loss expectations. In addition, for the FASB, all financial assets modified in a troubled debt restructuring will have impairment measured using lifetime expected losses. Practical expedients will be provided for trade receivables and lease receivables.
9. For trade receivables with a significant financing component (e.g., long term), an entity could apply a policy election either to apply the three-bucket impairment model or to apply a simplified model. The simplified model would require those

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<sup>5</sup> The model that applies to financial assets other than PCI financial assets, trade receivables without a significant financing component and other trade receivables and lease receivables for which a policy election is made to always recognise an allowance for lifetime expected losses.

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trade receivables to have an allowance measurement objective of lifetime expected credit losses at initial recognition and throughout the trade receivables' lives. Lease receivables would be permitted the same election.

- The staff notes that there are no disclosures recommended specifically for trade and lease receivables. The staff believes the current disclosures in US GAAP and IFRSs, in conjunction with the proposed disclosures for impairment accounting generally, will provide sufficient disclosures pertaining to these two types of financial assets, including the requirement to disclose the accounting policy selected<sup>6</sup>.

## Objectives

- The overriding goal of the recommended disclosures is to provide financial statement users a better understanding of how management applies the three-bucket impairment model. Thus, the staff have identified two objectives to help reach that goal while helping to understand its impact on an entity's financial statements.
- There are two major points on which the tentative impairment model is different from current US GAAP and IFRSs. The first differentiating factor is in the type of information entities are expected to incorporate into credit loss calculations. Using expected loss information requires forecasting and judgment on the entity's part, and users will benefit from an understanding of how an entity derives and uses this information.
- The second differentiating factor is in the way credit migration occurs. Under the tentative model, impairment for most financial assets subject to impairment accounting will now be measured under two different measurement objectives (12 months' credit losses and lifetime credit losses), with recognition of lifetime credit losses occurring upon the satisfaction of the transfer criteria.

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<sup>6</sup> The relevant disclosures for US GAAP purposes are contained in 310-10-50-11B and for IFRS purposes in IFRS 7.

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14. Thus, in line with these differentiating factors, the staff has developed the following two objectives for the recommended disclosures:

- (a) **Expected Loss Objective**– To convey information about the expected loss content in an entity’s financial assets covered within the scope of the impairment model
- (b) **Credit Migration Objective**– To enable users of financial statements to understand the credit migration of financial assets within the scope of the impairment model

15. The staff notes that the credit migration objective is part of providing users an understanding of an entity’s credit risk management. Many of the disclosures recommended under the larger credit migration objective also help users understand the relationship between how financial assets are managed and how expected credit losses are estimated. The recommended disclosures are not intended to duplicate any current disclosures in either US GAAP or IFRSs; however, the staff has included all relevant disclosures necessary to meet the two objectives defined.

## Disaggregation of Disclosures

16. The staff recognizes that there are existing differences in the level at which the financial asset portfolio is disaggregated for credit impairment disclosures in IFRSs and US GAAP. Under IFRS 7, the financial asset portfolio may be disaggregated at the class level. IFRS 7 explains in paragraph 6:

When this IFRS requires disclosures by class of financial instrument, an entity shall 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. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

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17. Under US GAAP, the financing receivable portfolio is disaggregated at two different levels for credit impairment disclosures – by portfolio segment and by class. ASC 310-10 defines a portfolio segment as “the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses.” Intended as a further disaggregation, ASC 310-10 defines a class of financing receivable as “a group of financing receivables determined on the basis of all of the following:
- (a) Initial measurement attribute (for example, amortized cost or purchased credit impaired)
  - (b) Risk characteristics of the financing receivable
  - (c) An entity’s method for monitoring and assessing credit risk.”
18. For US GAAP purposes, the staff understands **that almost all of these disclosures will be disaggregated at the class level** (that is, based on initial measurement attribute, risk characteristics, and the method for monitoring and assessing credit risk). However, **the staff believes that the roll forward narrative disclosures and the financial asset ending balance disclosures should be disaggregated on the portfolio segment level** because they are related to the allowance amount (i.e., it is appropriate to disaggregate on the level at which a systematic methodology to determine the allowance for credit losses is employed). The staff also notes that for **the purchased credit-impaired disclosures recommended in paragraphs 513 and 544 further disaggregation is not necessary** because these assets are expected to be a small subset of most entities’ financial asset portfolios. These exceptions are noted in the paragraphs describing the disclosures.
19. For IASB purposes, the staff believes that disaggregation will occur at a level that is most appropriate for the type of disclosure consistent with the current requirements of IFRS 7. For example, the disclosures may be provided on the basis of how the allowance is determined and that may lead the other disclosures to be disaggregated at the same level. These would be considered the class for IFRS 7 purposes.

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## Disclosures Recommended and Feedback

### *Expected Loss Objective Disclosures*

20. To understand how an entity implements the impairment model, the staff has developed disclosures that consider the types of information evaluated by an entity and how that entity considers the information in the context of the impairment model.

#### *Expected Loss Calculations*

21. The staff notes that one of the components of the three-bucket impairment model is the incorporation of expected losses in an entity's allowance calculations. Requiring entities to use expected loss data will increase the significance of forecasts and an entity's judgment in calculating the impairment of its financial assets. The impairment model will require entities to incorporate new types of information into their measurement of expected credit losses. The staff think it will be helpful for users of financial statements to understand what type of information preparers use, and how it is used, in their estimate of expected credit losses. Similar disclosures were proposed by the IASB in paragraph Z10 of Appendix Z of the SD. See paragraphs A29-A33 in Appendix A discussing the feedback received on those disclosures.
22. The staff recommend the following disclosures (while noting that disclosures related to changes in estimates are included further below in the allowance roll forward narrative disclosures discussion):
- (i) *A discussion of the inputs and specific assumptions the entity factors into its expected loss calculations. Such discussion would include the basis of inputs (e.g., internal historical information or rating reports)*
  - (ii) *How the information above is developed and utilized in measuring expected losses. For example, the estimation techniques used*

### *Transfer Criteria*

23. Two criteria must be satisfied for assets to be categorized outside Bucket 1: (1) a more than an insignificant deterioration in credit quality since initial recognition, and (2) the likelihood that some or all of the contractual cash flows may not be collected is at least reasonably possible. In the general model, if either of those criteria is not met, the asset(s) are categorized in Bucket 1. There is no specific method, nor indicators that are required to be used for assessing whether the transfer criteria are met.
24. The staff believes that different entities will use different information and approaches for assessing whether the transfer criteria are met. This may be dependent upon the nature of their assets and other factors. Therefore, the staff is recommending the following disclosure:
- (i) *A qualitative analysis that describes the indicators and information used to determine whether the transfer criteria has been satisfied*

### *Collateral Disclosures*

25. The staff believes that when an entity considers expected loss data in its impairment calculations, collateral will be an important factor in determining the impairment amount, if any. For instance, an entity with more heavily collateralized loans will, all things being equal, record a smaller allowance for credit losses than an entity with unsecured loans regardless of the measurement objective category in which they are categorized (i.e., 12 months or lifetime). Therefore, the staff believes more information is required for users to understand the amount of credit exposure that is left after available collateral is taken into account.
26. The staff notes that there exists currently under US GAAP a disclosure that requires the following for significant concentrations of credit risk<sup>7</sup>:

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<sup>7</sup> 825-10-50-21(c)



- (a) The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk
- (b) Information about the entity's access to that collateral or other security
- (c) The nature and a brief description of the collateral or other security supporting those financial instruments.

27. Paragraph 36(b) in IFRS 7 requires similar information disclosed as recommended in paragraph 30(i) below.
28. The disclosures recommended are for both IFRS and US GAAP purposes and may therefore overlap on some counts with current disclosures because they are attempting to satisfy the disclosure needs of both accounting frameworks. The disclosures recommended in paragraphs 30(iii) and 30(iv) are already inherent in current US GAAP for significant concentrations of credit risk. As they have been recommended by the staff, they would have a broader reach as they are not limited to where there are significant concentrations of credit risk.
29. In order to understand the necessity of these disclosures, it is best to explain the transfer criteria. The transfer criteria are based on the likelihood of default rather than the severity of expected loss. Therefore, an entity would not take into consideration collateral (even if a financial asset was fully collateralized) in determining if an asset met the transfer criteria. If highly or even fully collateralized assets could satisfy the transfer criteria, it would be helpful to understand when such assets are measured with a lifetime expected credit loss objective. The collateral disclosures recommended below would serve that information need.
30. The staff is recommending the following disclosures:
- (i) *A description of collateral held as security and other credit enhancements and, by measurement objective (i.e., 12 months' or lifetime expected credit losses), their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk*
  - (ii) *Balances of fully collateralized financial assets*

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- (iii) *A discussion of the quality of collateral securing an entity's financial assets*
- (iv) *An explanation of any changes in quality of collateral, whether because of a general deterioration, a change in appraisal policies by the reporting entity, or some other reason*

### **Credit Migration Objective Disclosures**

31. To enable the users of financial statements to understand the credit migration of financial assets within the scope of the impairment model, the staff has recommended the following disclosures.

#### *Allowance Roll Forward Narrative Disclosures*

- 32. One of the consistent concerns the staff has heard from users is that they would like the impairment model to give them advance warning of further deterioration in credit through expected loss information.
- 33. The staff note that quantitative disclosures exist currently in both US GAAP and IFRSs related to activity in the allowance for credit losses. The narrative disclosures recommended here are intended as a complement to those existing quantitative disclosures. The staff believe users of financial statements will benefit from a qualitative discussion in the financial statements.
- 34. Under the impairment model, entities will be required to calculate two separate allowance balances (12 months' and lifetime). As a result of this dual measurement, the staff believe that a narrative discussion of the drivers of change in the allowance balance for each of the measurement objectives is necessary. Such disclosure would allow users to understand management's judgment and to assess the potential for further deterioration in credit quality.
- 35. Estimates may change, for example, because of changes in volume of assets, changes in overall market conditions, or as a result of a significant event occurring (e.g., sovereign debt crisis, political events, the effects of significant industry or geographical concentrations of credit, weather-related or other disasters). The staff believes that the disclosures should include a narrative

qualitative discussion describing significant events affecting the entity's allowance calculation and how the event affected the entity's allowance calculation.

36. Users generally indicated in targeted outreach that these roll forward narrative disclosures were essential to understanding the changes and calculations within existing disclosures.
37. The staff notes that for US GAAP purposes, **this disclosure would be disaggregated on portfolio segment level** because of its interaction with the allowance amounts. The staff notes that disclosures recommended in paragraphs 38(i) through 38(iv) are intended to complement existing allowance activity disclosures in IFRSs and US GAAP.<sup>8</sup>
38. The staff are recommending the following qualitative disclosures related to the allowance roll forwards:
- (i) *A discussion of the changes in credit loss expectations and the reasons for those changes (e.g., loss severity, change in portfolio composition, change in volume of assets whether purchased or originated, significant event or conditions that are affecting the calculation of the allowance that were not expected when originally calculated)*
  - (ii) *A discussion of the changes in estimation techniques used and the reasons for the change*
  - (iii) *Reasons for a significant amount of write-offs<sup>9</sup>*

<sup>8</sup> For US GAAP, 310-10-50-11B(c) and paragraph 16 of IFRS 7.

<sup>9</sup> At the February 2011 meeting, the Boards jointly agreed to the definition of a write-off and under what circumstances an entity should write off an asset. The following are the tentative decisions made by the Boards:

- (a) The definition of 'write-off' will be 'a direct reduction of the amortized cost of a financial asset resulting from uncollectability'.
- (b) Guidance will be included in the standard to indicate 'A financial asset is considered uncollectible if the entity has no reasonable expectation of recovery. Therefore, an entity shall write off a financial asset or part of a financial asset in the period in which the entity has no reasonable expectation of recovery of the financial asset (or part of the financial asset)'.

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- (iv) *How assets are grouped for disclosure purposes, if necessary, including specific information on what credit characteristics are considered similar to enable grouping*

### *Risk Disaggregation*

39. Because the impairment model is based on the migration of credit quality and there could be a wide range of credit qualities in Bucket 1, the staff believes that a more granular level of detail is necessary within the two different measurement objectives. Therefore, the staff is recommending that entities disaggregate the carrying amounts of financial assets into risk categories, so that users have a better sense of which financial assets could possibly transfer from one measurement objective to the other (see Appendix B for an example). For example, these staff think that information about a preponderance of high risk assets may be helpful to indicate a potentially greater risk of transfer to the lifetime expected loss objective in the near future.
40. Some staff believe, however, that disaggregating by risk level only shows the risk profile at a given point in time. It cannot show the risk migration because the information necessary to show how assets migrate includes comparing to the original credit quality. Furthermore, some staff note that assets could move directly from the ‘moderate’ risk category in the 12 months grouping to the group of assets with an impairment allowance measured with a lifetime expected credit loss. So, while these tables would show risk profile, the migration would have to be inferred from the trend over time. However, in speaking with users, the staff learned that even having the risk profile information and inferring credit migration from that would be useful information.
41. Users indicated that while they thought this disclosure would be helpful, they were concerned about the relative nature of the disclosure based on the range of credit quality relevant to the reporting entity’s portfolio and that it would lack

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Note that US GAAP requires disclosure of an entity’s policy for charging off uncollectible financing receivables in paragraph 310-10-50-11B(b). In addition, the IASB staff is recommending disclosures related to write-offs in IASB Agenda Paper 5B.

- comparability as a result. However, they believed that the risk disaggregation would provide insight into an individual company's financial asset portfolio and were thus in favor of including it in the notes to the financial statements.
42. Some are concerned that the change in impairment model does not necessitate a risk disaggregation disclosure. In other words, no new elements have been developed in the joint impairment model that make this disclosure more applicable now than it would have been under the current incurred loss impairment model. There is also concern that the costs to preparers will not exceed the benefits to users with this disclosure.
43. Additionally, some staff support only the risk disaggregation for the 12 months' expected loss objective. This is because those staff believe that many financial assets across a wide range of credit qualities will be measured under this objective, while those assets measured under a lifetime loss objective will generally share a more similar risk level. Other staff support the risk disaggregation for both expected loss objectives because changes in risk affect the measure of expected loss irrespective of the transfer criteria and therefore will provide users with information regarding the drivers of change in the measure.
44. The staff considering adding language to the recommended disclosure that would have required entities to reconcile internal credit rating grades to the lower, moderate, and higher risk categories. However, the staff is of the understanding that entities consider this internal risk rating information to be proprietary and will object to this level of specificity. Therefore, the staff decided not to include this reconciliation. The staff also note that the proposed disclosure, even in its more relative form of lower, moderate, and higher risk categories, may be deemed propriety information by some preparers.
45. However, users indicated that a risk disaggregation for both measurements objectives would be helpful.
46. The staff is recommending the following disclosure:
- (i) *A disaggregation of an entity's financial assets measured under the impairment model into lower, moderate, and higher risk categories, for each measurement objective*

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- (ii) *A description of how the entity determines which financial assets fall into the lower, moderate, and higher risk categories*

### *Purchased-Credit Impaired Disclosures*<sup>10</sup>

47. At the January 2012 meeting, in discussing purchased credit-impaired (PCI) assets the Boards decided that disclosure should be provided to facilitate analysis and comparability of originated and acquired portfolios. Specifically, the Boards tentatively decided that disclosure should be required of the expected contractual cash shortfalls implicit in the purchase price. The staff believes that a comparison between gross amounts of PCI assets to other assets (i.e., originated and purchased non-credit-impaired assets) will serve this purpose (see Appendix B for an example). This comparison would display other assets and PCI assets separately at their net carrying value, with an addition for the allowance of these assets to display gross carrying value<sup>11</sup>. The table would also display amounts that are not reflected on the entity’s balance sheet, which are “below the line” additions for the remaining amount of contractually required principal and interest cash flows an entity expects to collect (referred to in existing US GAAP as “accretable yield”) and the amount of contractually required principal and interest that the entity does not expect to collect (non-accretable difference).
48. The staff considered attempting to separate non-credit impaired purchased loans from non-credit impaired originated loans (i.e., a comparison of originated and purchased non-credit impaired loans) in order to provide information about whether growth has been ‘organic’ or via acquisition. However, the staff found that it would not be cost-beneficial to segregate purchased and originated financial assets in a way that would provide users with meaningful information.
49. The staff would like to note that **further disaggregation is not necessary in this instance.**

<sup>10</sup> IASB only Agenda Paper 5D recommends that the scope of the accounting for PCI assets also include originated credit-impaired assets. If the IASB agrees with the staff recommendation, the disclosures discussed here for PCI assets will apply to originated credit-impaired assets as well.

<sup>11</sup> Note the allowance balance for purchased credit-impaired assets is only created subsequent to acquisition based on changes in lifetime expected credit losses for those assets.

50. Users in targeted outreach indicated that the PCI comparison disclosure would be helpful in alleviating some of the complexity in this area of accounting and would enable them to see the possible contractual cash flows that could be collected if there was a favorable change in expectations.
51. The staff notes that some concern has been raised about the extent of these PCI disclosures. Some have expressed that the only element that necessitates disclosure is the cash flows that are not expected to be collected. From this amount, investors, using existing disclosures, will be able to find all of the information in the rest of the recommended disclosures.
52. However, the staff believe that the disclosures are necessary because they differentiate two asset types that are accounted for in a completely different manner. PCI assets are among the most complex assets to account for, and are accounted for differently than other non-PCI assets. At the issuance of the financial statements, these two types of assets are commingled on the same line in the balance sheet, resulting in a lack of transparency for investors attempting to compare the two different asset types. The staff believes a comparison between the two will help alleviate this difficulty.
53. The staff is recommending the following disclosure:
- (i) *A comparison of purchased-credit impaired to other financial assets subject to impairment accounting. The gross carrying amount, impairment allowance, contractually required amounts expected to be collected, and contractually required amounts not expected to be collected for purchased-credit impaired financial assets must be displayed, along with the carrying amount and allowance for purchased and originated non-credit impaired assets*
54. At the January 2012 joint meeting, the Boards decided that, for PCI assets, favorable changes in cash flows expected to be collected would be recognized immediately in profit or loss as an adjustment to the impairment expense. The staff notes that, under tentative decisions, the non-accretable difference (i.e., the lifetime expectations of cash flows not expected to be collected) established at the purchase date of a PCI asset (sometimes thought of as the “implicit allowance”)

remains off-balance sheet. As a result, the staff believes it is important to provide users with insights as to when favorable changes in estimates occur, in what amounts, and how this affects the income statement. When the Boards decided that favorable changes in expected cash flows would be recognized immediately in profit or loss as an adjustment to the impairment expense, they were silent on which balance sheet accounts should be affected. The staff also believes it is important to provide transparency into which accounts the favorable change affects. Therefore, the staff is recommending the following disclosures:

- (i) *For purchased-credit impaired financial assets, the amount recognized due to the effect of favorable changes in the lifetime expectations of cash flows not expected to be collected (i.e., the non-accretable difference)*
- (ii) *How the favorable change has affected net income*
- (iii) *To which accounts the favorable changes have been reclassified*

### *Financial Asset Ending Balances*

55. In a financial asset roll forward that was considered but not recommended (see paragraphs 65-68 below), the staff had disaggregated the ending balances of financial assets by measurement objective (i.e., 12 months' or lifetime expected credit losses). The staff believes that disclosures of disaggregated ending balances remain useful to investors. Because of the dual measurement objective, it is important for users to see the totals of assets measured at either measurement objective and the changing balances of financial assets in each measurement objective year over year.
56. The staff notes that for US GAAP purposes, this disclosure should be considered an update of an old disclosure in paragraph 310-10-50-11B(h) rather than a new disclosure. Paragraph 310-10-50-11B(h) requires disclosures of "the recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated on the basis of the entity's impairment methodology".



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57. Also, current US GAAP, requires in paragraph 310-10-50-11B(g) the balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity’s impairment method. The staff notes that this disclosure is important because it highlights the difference in the two different methods for calculating an allowance (both collective and individual). The staff notes that this distinction has become more important under the new impairment model, in which there is a dual measurement objective (12 months’ expected credit losses and lifetime expected credit losses).
58. The staff notes that paragraph 37(b) of IFRS 7 currently requires an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired. Many entities already disclose the loan balance and allowance amount related to collectively versus individually assessed impaired loans. Therefore, the staff is recommending that paragraph 310-10-50-11B(g) and paragraph IFRS7.37(b) be updated to apply to the new measurement objective of 12 months’ and lifetime losses.
59. The staff notes that while the three-bucket impairment model has only two measurement objectives, there are three categories of financial assets. The Boards tentatively decided that the difference between Buckets 2 and 3 is the unit of evaluation. Bucket 2 will contain financial assets evaluated on a group basis while Bucket 3 will contain financial assets evaluated on an individual basis; however both will have a lifetime expected loss measurement objective. The Boards also tentatively decided that an entity may not group financial assets if recognition of lifetime losses for a sub-group is appropriate.
60. During outreach activities, the staff learned from users that they are interested in understanding which assets are assessed on an individual basis especially when that individual assessment is due to a decline in credit quality and closer management of the asset. Therefore, the staff believes that the population of financial assets evaluated on an individual level which has experienced a more than insignificant deterioration is relevant to users. The staff notes that these financial assets may not have deteriorated further than those evaluated on a group

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basis and measured with a lifetime expected credit loss objective. Consequently the staff do not think that the distinction between Bucket 2 and 3 is necessary anymore<sup>12</sup>. However, the staff notes that this distinction in evaluation helps users understand how an entity is monitoring and managing the credit risk.

61. The staff considered a disclosure for only assets that an entity deems to be individually significant and have experienced a deterioration in credit. This group of assets would represent a subset of Bucket 3. However, the staff ultimately decided that defining individually significant assets would be extremely difficult and may provide a disclosure for a very limited number of assets, in which case the disclosure may be of limited usefulness to users.
62. The staff notes that **for US GAAP purposes**, these disclosures would be **disaggregated by portfolio segment** because the disclosures are related to the allowance.
63. The staff is recommending the following disclosures:
  - (i) *The balance of financial assets disaggregated by measurement objective and the allowance related to these financial assets*
  - (ii) *The balance of financial assets evaluated on an individual basis and for which impairment is measured with a measurement objective of lifetime expected credit losses and the allowance related to these financial assets*

## Disclosures Considered but Not Recommended

64. The staff considered other disclosures during the process of drafting this memo, but decided not to recommend them for the Boards' consideration for various reasons. The staff believes that discussion of these disclosures will still be helpful for the Boards to understand what disclosures were considered and why they were not recommended.

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<sup>12</sup> Furthermore for the IASB definition of purchased and originated credit-impaired and to determine when a change in interest presentation is required, the staff do not recommend in IASB only Agenda Paper 5D using the Bucket 3 collective evaluation to determine the scope of these.

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### ***Financial Asset Roll Forward Disclosure***

65. The staff considered a roll forward disclosure that would provide information on how an entity’s financial asset portfolio has changed over the reporting period (see Appendix B for an example). Paragraph Z7(b) of Appendix Z to the SD proposed a similar disclosure for the group of assets with an impairment allowance measured as lifetime expected credit losses (paragraph A21-A24 in Appendix A discusses the feedback received). The staff also considered a narrative disclosure that would require a discussion of the changes in the financial asset roll forward, including reasons for growth or decline in a particular asset grouping.
66. The financial asset roll forward would include all changes made in the current period to arrive at the period’s ending balance. The beginning and ending balances would be based on the gross carrying amount so that the balances can be reconciled to the line items presented in the statement of financial position.
67. In targeted outreach, users told the IASB and FASB staff that this roll forward would greatly enhance transparency into an entity’s financial asset portfolio. Users said that they attempt to come up with this information on their own, and that having all of this information presented in the same place would be beneficial to their analysis.
68. However, feedback from preparers stated that the costs associated with this disclosure (and any disclosure with ‘flow’ information) would be substantial. The staff also considered that the financial asset roll forward may go beyond the objectives established for this disclosures memo. It was the intention that these disclosures be related to the new elements of the impairment model, and it is the opinion of some staff that this disclosure is not within that scope. Those staff consider this disclosure to be related to classification and measurement, and not impairment. Therefore, the staff are not recommending the financial asset roll forward for the Boards’ consideration.

### ***Allowance Roll Forward Disclosure***

69. The staff notes that entities will be required to recognize either 12 months' or lifetime expected credit losses based on whether the entity's assets have met the transfer criteria.
70. The staff considered disaggregating the existing allowance activity disclosures in IFRSs and US GAAP by measurement objective (i.e., 12 months' versus lifetime). See example in Appendix B. Some users were supportive of this type of disaggregation and believed that entities would prepare the allowance amount in this manner in any case. However, the staff was sensitive that in the past preparers have reacted negatively to preparing roll forwards by measurement objective<sup>13</sup>.
71. Providing the roll forward by measurement objective would enable users to see the transfers between the measurement objectives, thus meeting the credit migration objective. However, in order to provide this information for open portfolios an entity would be required to track the movement of the assets and determine the change in the allowance that is due to new loans, what related to derecognized assets, transfers between buckets and changes in estimates. In the staff's view, the cost of providing this information would be onerous and the benefits would not outweigh those costs. The staff decided that having the ending balance of each allowance grouping disaggregated by measurement objective, in conjunction with the qualitative discussion, would suffice and would still provide meaningful information to users. The staff has identified other narrative disclosures above that would meet the credit migration objective but with a lower cost to preparers in paragraph 38.
72. Therefore, the staff believes that the current activity roll forwards required in 310-10-50-11B (c) and paragraph 16 of IFRS 7, along with the disaggregations recommended in paragraph 63 are sufficient.

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<sup>13</sup> Specifically in the FASB project on credit quality disclosures.

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***Lifetime Expected Credit Losses for Financial Assets Measured under a 12-Month Expected Loss Measurement Objective***

73. The staff expect that many financial assets will be measured under a 12 months’ expected credit loss measurement objective, and as mentioned above, that assets with a wide range of credit qualities would be measured with this objective. Some users have suggested disclosing the lifetime expected credit losses associated with the financial assets measured with a 12 months’ expected credit loss. This is similar to the disclosure required in paragraph Z8(b) of the SD. However, as noted in paragraph A27 of Appendix A, many constituents responded that this would be an unduly onerous disclosure. In addition, during targeted outreach with users, this disclosure was not deemed necessary by many users. They stated it would be ‘interesting’ or ‘nice to have’, but not critical to have. Therefore the staff is not recommending any disclosure related to this topic.

**Summary of Recommended Disclosures**

74. For ease of comprehension, the staff has summarized the recommended disclosures.

**Expected Loss Objective Disclosures**

<b>Expected Loss Calculations</b>	A discussion of the inputs and specific assumptions the entity factors into its expected loss calculations. Such discussion would include the basis of inputs (e.g., internal historical information or rating reports)
	How the information above is developed and utilized in measuring expected losses. For example, the estimation techniques used
<b>Transfer Criteria</b>	A qualitative analysis that describes the indicators and information used to determine whether the transfer criteria has been satisfied
<b>Collateral Disclosures</b>	A description of collateral held as security and other credit enhancements and, by measurement objective (i.e., 12 months’ or lifetime expected credit losses), their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk
	Balances of fully collateralized financial assets
	A discussion of the quality of collateral securing an entity’s financial assets

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An explanation of any changes in quality of collateral, whether because of a general deterioration, a change in appraisal policies by the reporting entity, or some other reason

### Credit Migration Objective Disclosures

<b>Allowance Roll Forward Narrative Disclosures</b>	A discussion of the changes in credit loss expectations and the reasons for those changes (e.g., loss severity, change in portfolio composition, change in volume of assets whether purchased or originated, significant event or conditions that are affecting the calculation of the allowance that were not expected when originally calculated)
	A discussion of the changes in estimation techniques used and the reasons for the change
	Reasons for a significant amount of write-offs
	How assets are grouped for disclosure purposes, if necessary, including specific information on what credit characteristics are considered similar to enable grouping
<b>Risk Disaggregation</b>	A disaggregation of an entity's financial assets measured under the impairment model into lower, moderate, and higher risk categories, for each measurement objective
	A description of how the entity determines which financial assets fall into the lower, moderate, and higher risk categories.
<b>Purchased-Credit Impaired Disclosures</b>	A comparison of purchased-credit impaired to other financial assets subject to impairment accounting. The gross carrying amount, impairment allowance, contractually required amounts expected to be collected, and contractually required amounts not expected to be collected for purchased-credit impaired financial assets must be displayed, along with the carrying amount and allowance for purchased and originated non-credit impaired assets
	For purchased-credit impaired financial assets, the amount recognized due to the effect of favorable changes in the lifetime expectations of cash flows not expected to be collected (i.e., the non-accretable difference)
	How the favorable change has affected net income
	To which accounts the favorable changes have been reclassified
<b>Financial Asset Ending Balances</b>	The balance of financial assets disaggregated by measurement objective and the allowance related to these financial assets
	The balance of financial assets evaluated on an individual basis and for which impairment is measured with a measurement objective of lifetime expected credit losses and the allowance related to these financial assets

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**Question 1 to the Boards**

Do the Boards agree with the staff recommendations regarding the disclosures?  
If not, what disclosures would the Boards prefer, and why?

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## APPENDIX A – Background Information

### Purpose of Appendix

- A1. This purpose of this Appendix is to provide the Boards with relevant background related to the disclosures proposed throughout the history of the impairment of financial assets project. This Appendix includes feedback received on those previous proposals. The staff has taken into consideration that feedback when developing the recommended disclosures in the main paper above.
- A2. This Appendix is organized as follows:
- (a) Credit Quality Disclosures (FASB Update No. 2010-20)<sup>14</sup>
  - (b) FASB exposure draft (FASB ED)<sup>15</sup>
  - (c) IASB exposure draft (IASB ED)<sup>16</sup> and Appendix Z to the joint supplementary document (SD)<sup>17</sup>

### Credit Quality Disclosures (FASB Update No. 2010-10)

- A3. The objective of the amendments in this Update was for an entity to provide disclosures that facilitate financial statement users' evaluation of the following:
- (a) The nature of credit risk inherent in the entity's portfolio of financing receivables

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<sup>14</sup> In July 2010, the FASB issued Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

<sup>15</sup> Published in May 2010, the FASB Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

<sup>16</sup> Published in November 2009, the IASB Exposure Draft, *ED/2009/12 Financial Instruments: Amortised Cost and Impairment*.

<sup>17</sup> Published in January 2011, the joint supplementary document, *Financial Instruments: Impairment*. Appendix Z to that document was an IASB-only appendix proposing disclosures that were dependent upon the proposed impairment model at that time.



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- (b) How that risk is analyzed and assessed in arriving at the allowance for credit losses
- (c) The changes and reasons for those changes in the allowance for loan losses.

A4. In achieving that objective, the amendments require disclosures about an entity’s allowance for credit losses and the credit quality of its financing receivables on a disaggregated basis. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. For example, the amendments required a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment (the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses) basis, with the ending balance further disaggregated on the basis of the impairment method. Also, an entity would be required to show both (i) the related recorded investment in financing receivables and (ii) the significant purchases and sales during the period by portfolio segment.

### **FASB Exposure Draft Disclosures**

- A5. The FASB included several disclosures related to impairment in its May 2010 proposed Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. Since this time, the impairment model has undergone significant changes rendering these disclosures irrelevant. In the following paragraphs, the staff will discuss for the Boards’ benefit disclosures proposed in the Update and those disclosures that are no longer relevant to the three-bucket model. Disclosures from the May 2010 proposed Update are described separately in FASB-only Memorandum 167.
- A6. Among the disclosures that the staff believes are no longer relevant are those related to allowance for credit losses. The proposed Update required a disclosure for activity in the allowance for credit losses and a description of the accounting

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policies and methodology used to estimate the allowance for credit losses. The staff believes the disclosure for activity in the allowance for credit losses existing current US GAAP<sup>18</sup> is sufficient for this purpose. In regards to the accounting policies and methodology used to estimate the allowance for credit losses, the staff believes that the guidance in paragraph 310-10-50-11B and in paragraph 38 of this memo is sufficient for this issue.

- A7. The staff has also included a disclosure for purchased-credit impaired assets that is in line with the guidance in the proposed Update. This disclosure is included in paragraphs 47 through 54. However, the staff has elected not to bring forward this disclosure for all FV-OCI financial instruments, as it was proposed in the original Update. The staff believes that this disclosure would be costly for preparers and would not provide useful information for purchased financial assets that are not purchased-credit impaired assets.
- A8. The staff has included for the Boards' discussion disclosures related to individually evaluated financial asset disclosures that were in the FASB proposed Update. A full discussion of these disclosures is in paragraphs 55 through 61 of this memo.
- A9. The staff has elected not to include disclosures related to interest income recognition from the FASB proposed Update. The staff notes that the May 2010 Update proposed a new model for interest income recognition on a net basis. This model is different from the current tentative impairment model and, therefore, these disclosures are no longer relevant.

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<sup>18</sup> ASC 310-10-50-11B(c)

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## IASB Exposure Draft and Supplementary Document Disclosures

### **Background**

- A10. The IASB ED included disclosure requirements related to impairment accounting and the credit quality of financial assets. The impairment accounting disclosures in the IASB ED were specific to the impairment model proposed within that document. Those particular disclosures that are dependent on the impairment model were redeliberated and amended disclosures specific to the impairment model proposed in the SD were included in an IASB-only appendix to the SD.
- A11. The other disclosures from the original ED that were not dependent on the impairment model (i.e., requirements related to an entity's write-off policy, stress testing, the credit quality of financial assets and vintage information) were redeliberated by the IASB in February 2011<sup>19</sup>. Many of the decisions made by the IASB related to those disclosures are still applicable with the three-bucket model, and the staff has incorporated the effects of those decisions into the joint staff recommendations.
- A12. This section of the paper discusses the IASB's previous tentative decisions that are still relevant and provides the feedback received on the disclosures included in the IASB-only Appendix Z to the SD.

### **IASB relevant previous tentative decisions**

- A13. The disclosures redeliberated in February 2011, the IASB tentative decisions and the affect on the recommendations below are:
- (a) **Write-off policy:** The IASB tentatively decided that an entity should disclose its write-off policy, including discussion related to whether assets written off are still subject to enforcement activity and the nominal amount of assets written off, but for which the entity is still pursuing

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<sup>19</sup> See IASB Agenda Paper 8 from the February 2011 IASB meeting.

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collection. In addition, recoveries of previously written-off assets should be included as a separate line item in the reconciliation of changes in the allowance account. See discussion in paragraph 5 in IASB-only Agenda Paper 5B which proposes inclusion of this information in the updated exposure document.

- (b) **Stress testing:** The IASB ED proposed disclosure of stress testing information if an entity prepares such information for internal risk management purposes. The IASB tentatively decided that this disclosure would not be required in the final standard. As a result, the disclosure is not proposed.
- (c) **Credit quality of assets:** For financial assets measured at amortised cost the IASB tentatively decided to require a reconciliation of changes in non-performing financial assets during the period for assets that are 90 days past due, but not included in the ‘bad book’. See discussion in paragraph 20 of IASB-only Agenda Paper 5B which discusses how this disclosure should be amended for the updated impairment model.
- (d) **Definition of ‘non-performing’:** The IASB tentatively decided to remove the definition of ‘non-performing’ proposed in the IASB ED as it is no longer needed for the proposed disclosures. For similar reasons, there is no definition of ‘non-performing’ proposed.
- (e) **Vintage information:** The IASB ED proposed disclosure of information showing the year of origination and the year of maturity (vintage information). The IASB tentatively decided that this disclosure would not be required in the final standard. As a result, the disclosure is not proposed.

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## **Feedback on IASB-only Appendix Z to the SD**

### *Disclosures included and feedback received*

- A14. The impairment model in the SD divided financial assets into the ‘good’ book and the ‘bad’ book. Assets in the ‘good’ book recognised a less than lifetime measure of expected losses. Whereas, assets in the ‘bad’ book recognised a lifetime measure of expected losses. As a result, the disclosures in this section may refer to ‘good’ and ‘bad’ book. However, when the staff considers whether to include similar disclosures in the recommendations to the boards later in the memo, the disclosures will refer to 12 month expected losses and lifetime losses, when appropriate.
- A15. Generally speaking, the feedback on the disclosures included in the SD was split. Some constituents (mainly users) believed the information would be helpful and an improvement. The majority of respondents, however, believed that there were too many disclosures proposed, too much information requested, and the cost of providing such information would outweigh the benefits of the information.
- A16. Furthermore, many respondents commented that it was too soon to comment on a set of disclosures in a limited scope document. They requested that the entire model, including disclosure requirements, should be re-exposed for comment.
- A17. Several constituents commented that the final standard should clearly set out how the disclosures interact with IFRS 7. And, other constituents commented that the disclosures should leverage Basel II Pillar 3 requirements to the extent possible.
- A18. The following paragraphs discuss the specific disclosures proposed in the SD and the feedback received.

### ***Paragraph Z6: Classes of financial instruments***

- A19. This paragraph discusses that an entity must group assets into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. This paragraph exists in IFRS 7 today. As a result, there was not much feedback received on this paragraph.

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### *Paragraph Z7: Allowance account*

A20. Paragraph Z7 required the mandatory use of an allowance account to account for credit losses with disclosure of reconciliations separately for the two groups of financial assets that are differentiated for the purpose of determining the impairment allowance (often referred to as the ‘good book’ and the ‘bad book’), disclosure of information about the minimum allowance amount and disclosure of a reconciliation of the nominal amount of financial assets in the group for which the entire amount of expected credit losses would be recognised (i.e., the ‘bad book’).

#### Feedback

A21. Some constituents favoured the mandatory use of an allowance account to account for credit losses. There were not many, if any, negative comments related to the mandatory use of an allowance account.

A22. Many constituents believed it was important to show reconciliations of the two groups of financial assets that are differentiated for the purpose of determining the impairment allowance, and a reconciliation of the changes in each of the related allowance balances. A few constituents commented that showing separate reconciliations was onerous, and they felt that a single reconciliation should be provided.

A23. Many constituents commented that disclosing the amount of assets and related allowance transferred to the other group would be difficult. They also commented that when impairment allowances are determined on a portfolio basis, allowances are not allocated to individual instruments. As a result, any disclosure of a transfer amount would be an arbitrary figure determined by the entity which may not provide the information that users request.

A24. However, the staff notes that in the outreach performed for the SD and the outreach performed in developing the recommended disclosures below, users have consistently and strongly expressed their opinion that the transfer amount is a critical element in understanding the quality of an entity’s credit risk management.

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See paragraphs 65-72 above for the discussion related to roll forwards of the allowance account and carrying values of the assets.

### *Paragraph Z8: Allowance account*

A25. Paragraph Z8 required disclosure of information about the impairment allowance that depends on the age of the portfolio compared with its expected life (i.e., that in relation to the ‘good book’) for five years, including the nominal amount of the financial assets, the total of expected credit losses, the amount of the credit loss allowance and effects of the minimum allowance amount.

### Feedback

A26. A majority of constituents commented that requiring 5 years information was onerous. In addition, they noted that there was no reasoning included in the basis for conclusions related to the required 5 years. Especially upon transition, they are concerned that it will be difficult to include 5 years of information.

A27. Constituents also commented that disclosing the lifetime expected loss for assets which are measured at an amount less than lifetime would also be too much information, and would require excessive work. Most of the assets would be measured with the less than lifetime loss (i.e., 12 months in the three-bucket model), and therefore developing a lifetime loss model for the majority of the book would be cumbersome.

### *Paragraphs Z9-Z12: Expected credit loss estimates*

A28. Paragraphs Z9-Z12 discuss the information that an entity shall disclose in order to explain the estimates and changes in estimates that are required to determine the impairment allowance. For example:

- (a) information about inputs and assumptions used in determining expected credit losses;
- (b) analyses of significant effects on impairment losses resulting from a particular portfolio or geographical area; and

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- (c) information that compares previous estimates of expected credit losses with actual outcomes.

## Feedback

- A29. Generally, constituents (users, preparers, auditors, regulators, etc) believed that disclosing information that explains how the estimates are determined is useful information. There were a few commentators that wanted to ensure that the final standard would clearly state the specific requirements. They were concerned that the requirements in the SD were too vague which could lead to vague disclosures.
- A30. Many constituents disliked the proposed disclosure of providing information that compares previous estimates of expected credit losses with actual outcomes (ie backtesting). They stated that backtesting on expected loss amounts would not provide useful information, and could be misleading, due to the nature of the expected loss estimate being judgmental.
- A31. They also stated that the proposed disclosure only required quantitative information if the entity already performed backtesting. For other constituents, qualitative information would be required. Many constituents believed that the disclosure should be the same for all constituents.
- A32. They also commented that backtesting in an open portfolio was difficult. Again, because it would be difficult to decipher between whether actual loss amounts were included in the original expectation or updated when new assets were added to the portfolio.
- A33. Still other constituents believed that this information is highly confidential and should not be required to be disclosed.
- A34. See paragraphs 21 and 22 discussing recommended disclosures related to the estimates of expected credit losses.



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***Paragraph Z13-Z15: Credit risk management***

A35. Paragraphs Z13-Z15 discusses the information that an entity should disclose in order to explain the relationship between how financial assets are managed and how expected credit losses are estimated. For example, disclose:

- (a) the nominal amount of financial assets and information about expected credit losses and the minimum allowance amount differentiated by credit rating grades;
- (b) information that describes the criteria used to determine in which of the two groups a financial asset is included; and
- (c) information about internal credit rating grades, if used by an entity.

**Feedback**

A36. Generally, constituents agreed that some information is needed to explain how credit risk is managed and expected losses estimated. However, many constituents were wary of sharing any proprietary information, and therefore thought some of these disclosures may become less useful.

A37. Many constituents did not like disclosing detailed information about credit grades. They believed that information should be kept confidential, and they noted that the grading systems would vary between entities. As a result, they did not believe the information would provide much value.

A38. For similar reasons, many constituents did not like disclosing information related to a ‘watchlist’, if they used one.

A39. See paragraphs 39-46 for the staff recommendations on disclosures related to risk disaggregation.

## APPENDIX B

75. The purpose of this appendix is to provide example disclosures that were shared during outreach by the IASB and FASB staff, some of which have been recommended for the Boards' consideration. This appendix is purely for informational purposes, and there are no questions for the Boards in it.

**Example 1- Financial Asset Roll Forward (paragraphs 65-68)**

		Financing Receivables Portfolio														
		Additions			Reductions			Other Net Change*	Carrying Amount at EOP	Carrying Amount at EOP			Allowance at EOP			
		Originations	Purchases	Draws	Payments	Sales	Charge-offs			Financial assets for which 12 months' credit losses are recognized	Financial assets for which lifetime credit losses are recognized	Total	Financial assets for which 12 months' credit losses are recognized	Financial assets for which lifetime credit losses are recognized	Total	
<i>in millions</i>																
20X2																
Commercial		3,693	1,659	15	2	(687)	(55)	(61)	(14)	4,552	4,092	460	4,552	128	32	160
Consumer		6,312	1,239	187	-	(1,564)	(34)	(67)	(16)	6,057	5,445	612	6,057	148	48	196
		<u>10,005</u>	<u>2,898</u>	<u>202</u>	<u>2</u>	<u>(2,251)</u>	<u>(89)</u>	<u>(128)</u>	<u>(30)</u>	<u>10,609</u>	<u>9,537</u>	<u>1,072</u>	<u>10,609</u>	<u>276</u>	<u>80</u>	<u>356</u>
20X1																
Commercial		3,858	860	24	-	(901)	(68)	(62)	(18)	3,693	2,891	802	3,693	114	25	139
Consumer		6,473	2,539	2	-	(2,456)	(8)	(213)	(25)	6,312	5,613	699	6,312	145	36	181
		<u>10,331</u>	<u>3,399</u>	<u>26</u>	<u>-</u>	<u>(3,357)</u>	<u>(76)</u>	<u>(275)</u>	<u>(43)</u>	<u>10,005</u>	<u>8,504</u>	<u>1,501</u>	<u>10,005</u>	<u>259</u>	<u>61</u>	<u>320</u>

\*This includes interest accretion changes and discount or premium amortization changes

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**Example 2- Allowance Roll Forward (paragraphs 69-72)**

20X2 <i>in millions</i>	Allowance for financial assets for which 12 months' credit losses are recognized		Allowance for financial assets for which lifetime credit losses are recognized		Total allowance account
	Commercial	Consumer	Commercial	Consumer	
Opening balance	114	145	25	36	320
Add/Less:					
Provision	44	35	27	38	144
Add:					
Recoveries	7	9	4	-	20
Less:					
Charge-offs	37	41	24	26	128
Closing Balance	128	148	32	48	356

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**Example 3- Risk Disaggregation (paragraph 46)**

20X2	<i>in millions</i>	Financial assets for which 12 months' credit losses are recognized			Total
		Lower Risk	Moderate Risk	Higher Risk	
	Commercial	3,397	450	245	4,092
	Consumer	4,247	436	762	5,445
	Total	7,644	886	1,007	9,537

20X2	<i>in millions</i>	Financial assets for which lifetime credit losses are recognized			Total
		Lower Risk	Moderate Risk	Higher Risk	
	Commercial	391	46	23	460
	Consumer	459	61	92	612
	Total	850	107	115	1,072

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**Example 4- PCI Comparison (paragraphs 53 and 54)**

20X2 <i>in millions</i>	Originated and Purchased (non- PCI)	Purchased-Credit Impaired	Balance Sheet Amount
Carrying amount less allowance	9,946	307	10,253
Add:			
Allowance	313	43	356
Carrying amount	10,259	350	10,609
Accretable difference		35	
Cash flows expected to be collected		385	
Non-accretable difference		34	
Remaining contractual cash flows		419	

20X1 <i>in millions</i>	Originated and Purchased (non- PCI)	Purchased-Credit Impaired	Balance Sheet Amount
Carrying amount less allowance	9,394	291	9,685
Add:			
Allowance	320	-	320
Carrying amount	9,714	291	10,005
Accretable difference		44	
Cash flows expected to be collected		335	
Non-accretable difference		34	
Remaining contractual cash flows		369	

\***Accretable Difference** refers to amounts expected to be collected that are not initially recorded on the balance sheet. **Non-accretable Difference** refers to amounts not expected to be collected that are never recorded on the balance sheet