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Introduction

1. In March 2013, the International Accounting Standards Board (IASB) issued the Exposure Draft (ED) *Financial Instruments: Expected Credit Losses*, which proposed a new model for the recognition, measurement, presentation and disclosure of expected credit losses (ECL). The comment period for the ED ended on 5 July 2013.
2. In order to supplement the comment letter process and interact with a broader range of interested parties during the comment period, the IASB held outreach meetings with a variety of constituents including preparers, users, auditors, national standard-setters, regional bodies with an interest in financial reporting and regulators. The outreach activities involved constituents from all regions ie Africa, Asia-Oceania, Europe, North America (the US and Canada) and South America. The outreach meetings were conducted in the form of in-person meetings, phone calls, video conferences and round tables. Some user outreach meetings were held jointly with the FASB.
3. The IASB also invited a small number of preparers from these regions to participate in detailed fieldwork to test and discuss the proposals. We discuss some of the observations made to date from the fieldwork in Agenda Paper 5B.

4. The purpose of this paper is to summarise the views expressed by participants on the ED, in particular preparers, users and regulators during the outreach meetings, and is structured as follows:
- (a) overall summary (paragraphs 5-9);
 - (b) users' feedback (paragraphs 10-32);
 - (c) regulators' feedback (paragraph 33-37);
 - (d) standard-setters' feedback (paragraph 38-42); and
 - (e) preparers' feedback (paragraphs 44-77).

Overall summary

5. Generally speaking, the majority of participants in the outreach activities (including non-US users) support the proposals in the ED. They did not support a model that recognises lifetime expected credit losses for all assets at all times.
6. The vast majority of the participants support a deterioration model that distinguishes between financial instruments that have experienced significant deterioration in credit quality and those that have not, because:
- (a) it achieves an appropriate balance between the economics of lending and operational complexity of an expected credit loss model;
 - (b) it is closely aligned to credit risk management practices;
 - (c) it will provide useful, relevant and timely information about expected credit losses; and
 - (d) it measures lifetime expected credit losses on only those items that have deteriorated in credit quality.
7. The majority of preparers consider the proposals to be complex yet operational, because the implementation and application of the proposed approach will leverage some of the data and models currently used in credit risk management systems.
8. Although preparers regard the proposals to be operational, they caution against underestimating the complexity and cost of implementation.

9. Overall, during our outreach we have found strong support for our model from a wide range of participants. However, convergence remains very important to many. Unfortunately, there were not many suggestions on *how* convergence could be achieved. But some suggested moving forward with a deterioration model that distinguishes ‘good’ assets from other assets.

Users’ feedback

Direct outreach

10. The staff met with investors and analysts representing more than 20 different organisations during both IASB-only outreach and joint outreach with the FASB. Joint outreach was focused on the differences and similarities between the models and the information each provides, while IASB-only outreach additionally addressed more detailed aspects of our model. Groups were represented from Europe, Asia-Oceania, Canada, and the United States. Users included sell-side and buy-side equity analysts, fixed income analysts, credit and ratings analysts, asset managers, and a structured finance specialist.
11. The views of users of financial statements are important to us, so this feedback was undertaken in addition to the feedback we have received from users of financial statements during previous outreach for the 2009 Exposure Draft (2009 ED)¹, 2011 Supplementary Document (2011 SD)², and the 2012 three-bucket model (ie the model developed jointly with the FASB). Feedback has been generally consistent over time, and responses the staff have observed during the various stages of outreach include:
- (a) support for moving to an expected credit loss model;
 - (b) concern about the subjectivity and judgement involved in management estimates;
 - (c) emphasis on the importance of comparability and consistent application; and

¹ ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*

² Supplement to ED/2009/12 *Financial Instruments: Impairment*

- (d) mixed views about the timing of recognition of expected credit losses. Some users favoured the objective to link the pricing of the asset with the recognition of credit losses, while others focused more on capital adequacy and balance sheet concerns around mitigating pro-cyclicality of reserving.
12. The outreach we received from users on the three-bucket model in 2012 is summarised in Appendix A to this paper.
13. Although many users expressed scepticism about management estimates in general during our outreach on the current ED, almost all users supported a change from an incurred to an expected credit loss model. They agreed that it was an improvement over existing practice because it addresses their concern about delayed recognition of credit losses and is more forward looking. Many participants also stated the importance for the model to depict changes in credit risk, and noted that analysts generally want to be able to identify credit migration. Users overall stated the importance of detailed disclosures, and noted they wanted even more detailed information about the underlying assumptions and information used to develop expected credit loss estimates.
14. The staff generally observed that a majority of non-US users preferred the use of a model where the measurement of expected credit losses differentiates between assets that have deteriorated in credit quality versus those that have not, while the majority of US participants preferred a model that always recognises lifetime expected credit losses initially. A small number of users stated that the allowance measurement method and the timing of recognition were of minimal importance because they would perform their own analysis in any case. To this extent what was important for them was detailed disclosure and consistency in the mechanics of arriving at the expected credit loss allowance.
15. Overall, users remain concerned about global convergence.

Timing of recognition of expected credit losses

16. Of the users who supported a lifetime loss model, many said they prefer to set the entire expected credit losses to be set aside to absorb future losses and regard reserve adequacy as a very important factor in their analysis. They emphasised that they take a balance sheet approach that would benefit from recognising full

expected credit losses up front. In addition, they viewed that a single-measurement model was simpler and would allow for easier comparison between entities. They noted that 12-month expected credit losses was an arbitrary measure, and emphasised their unease with the judgement involved when to move between measurement stages (ie from 12-month to lifetime). Some noted concern that a 12-month expected credit loss allowance would not be sufficient to cover expected credit losses (particularly for loss events expected to occur after 12 months). A small number stated that they preferred to see lifetime expected credit losses on the balance sheet, but did not want that taken through profit or loss.

17. As mentioned above, the majority of the non-US participants support a model where the measurement of expected credit losses distinguishes between assets that have deteriorated and those that have not. These investors disagreed with a model that recognises lifetime expected credit losses upfront. Many pointed out that recognising any expected credit losses at initial recognition is conceptually inappropriate because an asset is initially priced at fair value and expected credit losses are built into that valuation. Consequently, no economic loss has been suffered and conceptually no allowance should be recognised at initial recognition. These investors prefer the IASB's original 2009 ED because they consider that it appropriately represents the underlying economics.
18. However, many of those users also noted they appreciated that the IASB ED provides a clear indication of deterioration in credit quality, and thought that the distinction of a dual measurement approach would be a benefit for the analysis of financial statements. Because they prefer a better matching of interest revenue to expected credit losses, they said they supported the use of 12-month expected credit losses as a proxy, for operational considerations. Some also support recognition of an allowance from inception based on 12-month expected credit losses because they considered it prudent as an allowance to account for possibly loose underwriting standards. Others viewed the 12-month measurement as beneficial because it accommodates the existing regulatory framework.
19. Users expressed concern about management estimates in measuring expected credit losses in general and the judgement involved in determining significant deterioration. Many of the users who supported our model recommended providing more detailed and specific guidance on when assets should move to

lifetime expected credit losses to reduce subjectivity. However, some users considered that although judgement is involved, the determination of significant deterioration only involves marginally more work and judgement as compared to the estimation of expected credit losses (especially lifetime expected credit losses), and provides valuable information on changes in credit risk.

20. Some users acknowledged the benefit the ‘investment grade’ simplification may have for preparers, and either noted agreement with the IASB's cost/benefit assessment, or did not think it was appropriate to recognise lifetime expected credit losses if an instrument has low credit risk. However, there was overall scepticism about the result it may have in practice. For example, some noted that they would consider deterioration in a bond with a rating equivalent to AAA to BBB to be significant and were concerned that lifetime expected losses would not be recognised. There was also concern that the “investment grade” simplification is inconsistent with the general model. In addition, it was mentioned that in the case in which an entity expects a downgrade but remains in investment grade, timely recognition of expected deterioration may be delayed. Some respondents suggested the model could be improved if the entity were required to disclose credit migration within the investment grade range.
21. The majority of users supported the use of a more than 30-days past due rebuttable presumption of significant deterioration, though a small number noted that it remains a lagging indicator. The primary reason for support was that it provided a consistent backstop that would increase comparability.
22. Users generally supported the change in the calculation of interest revenue when assets have objective evidence of impairment. Users said that calculating interest revenue using the effective interest method on the *net* carrying amount for these assets would:
 - (a) better reflect the economic return of these asset; and
 - (b) provide more useful information on non-performing assets by removing a distorting effect on profit.
23. However, some respondents expressed a preference for moving to non-accrual, because it was considered a more conservative method to account for these assets.

Disclosures

24. Overall, users supported both the IASB's and FASB's proposed disclosures. They did, however, express suggestions on what disclosures are most relevant and what other information they would like to see.
25. Among the more frequent comments was a desire for more detailed information, in particular related to changes in expected credit losses caused by changes in the portfolio and credit migration. Detailed disclosure about changes in the loss allowance per 12-month or lifetime measurement category, the corresponding effect on profit or loss and the movement between stages was cited as a key element for an impairment model, to enhance comparability and usefulness. An example of the type of detailed information users would like to see includes understanding the effect of the newest deteriorations, and whether an increase in 12-month expected loss allowance balance for a particular class of assets is due to new originations or the deterioration of existing assets. A further breakdown of the loss allowance was also suggested in order to provide information about management's expectations and adjustments to enable evaluation of the quality of those expectations compared to actual credit losses. Some users further noted that they felt the detailed information about changes in credit quality was more important than the measurement of the allowance balance in the primary financial statements.
26. Users suggested a variety of other disclosures, among which was a desire for standardisation of disclosures to improve comparability. This could be assisted through defining terms to make their use more consistent across entities. Other suggestions included:
- (a) more detailed information about internal credit risk rating grades, (notably how they compare with recognised external grades);
 - (b) information about the early stages of a forthcoming delinquency;
 - (c) risk weighted assets; and
 - (d) the model an entity uses to determine probability of default.

Independent feedback

27. The CFA Institute independently undertook a global survey on the IASB and FASB impairment proposals.
28. The respondents to that survey were fairly evenly split in their preference for the models with a slight preference for the IASB model. There was a clear preference for the IASB model in the EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific) regions with a preference for the FASB model in the Americas, but overall the results indicate a slight preference for the IASB model globally.
29. Respondents' support for the IASB model was based on the depiction being more economic whereas preference for the FASB model was often driven by a preference for prudence.
30. Respondents were also asked questions on more specific aspects of the models. A strong majority supported discounting of expected credit losses and that the discounting is explicit rather than simply implicit. In addition, a majority of respondents preferred the IASB's proposals for interest revenue recognition rather than using a non-accrual approach.
31. Disclosures were also of significant interest to respondents. In particular, there was significant interest in disclosures about credit quality, the assumptions used to determine expected credit losses – including the discount rate, details of cash flow characteristics of financial assets – and information about the development of expected credit losses.
32. The vast majority of respondents expressed a desire for the boards to reach a converged outcome.

Regulators' feedback***General***

33. During our outreach we consulted both securities and prudential regulators.
34. Securities regulators preferred the 2009 ED proposals. However, they support the current proposals and acknowledge that it reflects the IASB's response to feedback on the 2009 ED proposals. Securities regulators did not support

recognising lifetime expected credit losses from origination. They argued that this would not reflect the economics of lending.

35. Prudential regulators consulted during the comment letter period did not articulate a definitive view as to which model they support. However, they did raise concern over whether the allowances in the IASB model would be sufficient and whether the model would be responsive enough to changes in economic conditions and whether the words in the ED were sufficiently clear.
36. Overall, convergence was still of importance to both securities and prudential regulators.

Specific areas on which feedback was received

37. Regulators raised the following specific points on our proposals:
 - (a) Some regulators are concerned that the 12-month expected loss allowance and the interaction of the significant deterioration concept as articulated in the proposals is not responsive enough to changes in economic conditions that affect credit risk—thereby not adequately capturing the expected credit losses on financial assets that have terms that result in late loss patterns (such as loans with bullet payments for which there is significant refinancing risk).
 - (b) In addition, they are concerned that default may be interpreted purely as non-payment, which could result in a lack of responsiveness of the model to changes in macroeconomic conditions and would also delay the recognition of lifetime expected credit losses.
 - (c) Furthermore, regulators are concerned that the model is not as forward-looking and responsive to changes in economic conditions as they had hoped because banks might only consider delinquency information to move a financial instrument to lifetime expected credit losses. They therefore request clarification that current macroeconomic conditions and forecasts of future events shall be considered—even if no borrower-specific information indicates significant deterioration.

- (d) Regulators believe that the IASB should remove or clarify the ‘low credit risk’ exemption. They are concerned that, as articulated in the proposals, ‘low credit risk’ is open to interpretation resulting in inconsistent application (such as a broad application to retail loans) and might accordingly inappropriately delay the recognition of lifetime expected credit losses.
- (e) Similarly to some preparers, regulators have raised concern about the range of the discount rates that can be used when discounting expected credit losses on instruments that do not have objective evidence of impairment (see paragraphs 64-66. They consider the range is too big and suggest that preparers should apply the EIR (or a proxy for the EIR).

Standard-setters’ feedback

- 38. During our comment letter period, we held meetings with the Accounting Standards Advisory Forum (ASAF) and Asia-Oceanian Standard-setters Group (AOSSG) to discuss the impairment proposals and the feedback we had received during our outreach meetings and fieldwork.
- 39. Consistently with the feedback from other participants during our outreach, most standard-setters supported our model. They supported our model because they view it as a good compromise between the faithful representation of the economics and operational cost.
- 40. While they generally agreed that the 12-month expected loss allowance on day one is not conceptually justified because no economic loss has occurred, they could support it as an approximation of the yield adjustment.
- 41. Some standard-setters said that they do not support the recognition of lifetime expected credit losses on all assets at all times because the day-one loss effect is exacerbated and the double counting of the initial loss expectations that are priced into a loan is even greater than under the IASB’s proposals. They did not consider that this achieves an appropriate balance between a faithful representation of the economics and the cost and complexity of implementation.

42. During our meetings, they confirmed that the feedback we had received during our outreach is consistent with the messages they have been hearing from their constituents. Some standard-setters noted specifically the following:

- (a) An operational concern that the assessment of significant deterioration in credit risk is based on a change in credit risk since initial recognition rather than on an absolute level of credit risk (see also paragraph 52).
- (b) A concern about the lack of guidance as to what constitutes the principle in assessing significant deterioration. Those standard-setters would prefer that the proposals clearly state that the objective is to assess whether an economic loss has occurred due to changes in credit risk.
- (c) A concern that from an operational perspective, preparers would prefer that deterioration is determined at an obligor level rather than at the level of individual financial instruments.
- (d) A concern that some institutions, particularly less sophisticated ones, may use only delinquency information when assessing significant deterioration for retail products instead of using more forward-looking information. The following practical considerations were noted:
 - (i) There were concerns that the proposals imply that changes in macro-economic factors in itself would result in higher allowances, rather than changes in relevant macro-economic factors that are correlated with a change in probability of default (see also paragraph 13(a)-(b) in Agenda Paper 5B; and
 - (ii) Retail loans are managed on a portfolio basis and therefore they expect that preparers would not be able to identify significant deterioration that has occurred for individual instruments due to changes in macroeconomic factors (see also paragraph 13(c)-(d) in Agenda Paper 5B).
- (e) That the investment grade simplification is inconsistent with the model. While those standard-setters prefer not to have the investment grade simplification, others noted that they believe the simplification strikes the correct balance based on cost/benefit considerations.

- (f) Concern that the range of discount rates that can be used to discount expected credit losses is too broad and that the EIR (or an approximation thereof) should be used instead (see also paragraphs 64-66).
- (g) Disagreement with applying the impairment model to instruments measured at FVOCI without practical expedients similar to the practical expedients provided in the FASB proposals (see paragraph 51(a));
- (h) Agreement with the simplified approach for trade and lease receivables but raising the question of whether IAS 11 *Construction Contracts* receivables were within the scope.

Preparers' feedback

General

- 43. Preparer participants that took part in our outreach activities included preparers from different business sectors, geographical regions and levels of sophistication. The business sectors included banking, insurance and non-financial services (ie lessors). In the banking sector, we had meetings with individual companies and groups of companies, and also with representative bodies, but in the non-financial and insurance sectors we met only with representative bodies (outside the fieldwork).
- 44. The vast majority of preparers supported a model that distinguishes between financial instruments that have deteriorated significantly in credit quality from those that have not.
- 45. Feedback from some lessor participant groups indicated support for the proposed accounting policy choice to measure the expected loss allowance for all lease receivables either by applying the general deterioration model or by applying a lifetime expected credit loss model at all times.
- 46. Preparers from both financial and non-financial sectors consider the proposals in the ED operational because they can leverage the information, processes and practices they currently use in their credit risk management systems. Some

preparers indicated that they consider the proposals to be more operational than both the 2009 ED and the 2011 SD proposals.

47. Convergence remains of high importance for preparers but some have said that they did not want convergence at all costs. In considering convergence, the vast majority of preparers we spoke to prefer to move forward on the basis of the proposals in our ED or suggested an approach that distinguishes between ‘good’ or ‘non-deteriorated’ assets and other assets as reflected in their credit risk management practices. Some, however, in particular US preparers, indicated that they would prefer a higher allowance for the instruments in the ‘good book’ than the current proposed 12-month ECL allowance.

12-month ECL allowance

48. In general, preparers supported the 12-month ECL measure. Most agreed with the IASB’s conclusion in paragraph BC61 of the ED that there is no conceptual justification for the 12-month ECL measure. However, they support it as a proxy to adjust the interest revenue for the initial expected credit losses over time in order to achieve a balance between the cost of applying the proposed model and the benefit of providing more useful and relevant information about expected credit losses.
49. The support for the 12-month ECL allowance was also based on:
- (a) preparers being able to leverage:
 - (i) their existing regulatory or credit risk models and data,
 - (ii) information used for planning and budgeting purposes;and
 - (b) the extent to which the risk or probability of a default occurring in the next 12 months can be reliably determined.
50. Being able to leverage data from existing regulatory models is especially true for Basel-regulated participants. For non-Basel-regulated participants, the 12-month ECL is a unique calculation that would not normally be required. Although these participants find the 12-month ECL allowance to be more complex to calculate,

overall they still regarded it as operational and acceptable because they felt they could fulfil the objectives of the proposed approach.

51. Support for the 12-month ECL has however not been unanimous.
- (a) Some participants from the insurance industry did not support recognising a 12-month expected loss for high credit quality financial assets such as sovereign and corporate bonds that would be measured at fair value through other comprehensive income (FVOCI) in accordance with the proposals in the Classification and Measurement ED. They believe that this does not support the economics of how the financial assets are priced by other market participants and is unnecessary when fair value is recognised on the balance sheet. Instead they propose an exception from recognising the 12-month expected loss for investment grade equivalent assets measured at FVOCI.
 - (b) Jurisdictional differences and preferences have emerged where preparers in some jurisdictions that apply current accounting requirements more broadly are concerned that the 12-month ECL would result in a reduction in loss allowance compared to the current loss allowance balances recognised.
 - (c) Some are concerned that the interaction between the 12-month ECL allowance and the significant deterioration assessment as articulated in the proposals will not be responsive enough to changes in economic conditions that affect credit risk and therefore will not adequately capture the expected credit losses on financial assets that have terms resulting in a late loss pattern.

Assessment of significant deterioration

52. Most preparers supported the proposal to start recognising a lifetime allowance when there has been a significant deterioration in credit quality. Those that did not support this were concerned about the operational complexity of having to track credit deterioration since initial recognition. Instead, these participants would prefer an approach that measures lifetime expected credit losses for a

financial instrument when a particular (absolute) level of credit risk is reached (ie irrespective of the change in credit risk since initial recognition).

53. However, virtually all respondents agreed that a lifetime expected credit loss allowance should be recognised based on a change in the credit risk on the instrument (ie the probability of a default occurring) rather than on a change in expected credit losses or in the loss given default (LGD).
54. Those that supported the notion of significant deterioration in credit quality agreed with the proposals to provide indicators in the application guidance for assessing significant deterioration rather than prescriptive guidance (ie bright lines). They believe that the amount of change in credit risk that constitutes significant deterioration depends on several factors, such as the level of credit quality at initial recognition and the remaining maturity of the financial instrument, the type of the financial instrument and the existing economic circumstances.
55. Despite the overall support for significant deterioration in credit quality as the appropriate point at which to start recognising lifetime expected credit losses, the following points were raised:
 - (a) Some thought the wording used in the ED could be interpreted to explicitly require the use of a probability of default (PD) approach to assess significant deterioration.
 - (b) Some participants were concerned that the ED requires the explicit calculation and storage of the lifetime probability of default curve for a financial instrument to compare the expected remaining lifetime PD at inception with the remaining lifetime PD at the reporting date. However, prescribing such a mechanistic approach was not the intention.
 - (c) There were frequent suggestions to improve the operability of the significant deterioration concept and further align it to credit risk management. These suggestions included, but were not limited to, the following:
 - (i) assessing significant deterioration based on changes in the 12-month, rather than lifetime probability of a default occurring; and

- (ii) assessing significant deterioration based on the changes in the counterparty credit risk rather than on a transaction basis.

56. Overall, participants acknowledged that the implementation and application of the proposed model will require significant judgement and changes to information captured by current credit risk management systems. However, most preparers said that they will be able to leverage existing infrastructure and credit risk information to make the assessment, for example, current internal credit risk rating scales or loss component models ($PD \times LGD \times EAD$) to determine when a financial instrument has deteriorated significantly since initial recognition.

Low credit risk simplification

57. Preparers, in particular insurers, supported the proposed operational simplification that financial assets with 'low credit risk' need not be assessed for significant deterioration. Preparers acknowledged that the simplification reduces the cost of tracking and makes the model more operational.
58. However, some preparers were interpreting the exemption as being a much broader relief than the IASB had intended (assuming for example a broad application to retail loans). A small number of participants believed that the relief was not broad enough, in particular for bonds. They proposed that management should be able to apply judgement to 'override' significant deterioration as long as the instrument is not likely to default.
59. Some preparers were also unsure whether the simplification was intended to be applied as a bright line. They requested additional clarification that deterioration to a level just below 'low credit risk' does not automatically result in moving assets to lifetime expected credit losses. The deterioration still has to be significant to recognise lifetime expected credit losses.

Rebuttable presumption when more than 30 days past due

60. In general, preparers welcomed the inclusion of the rebuttable presumption for a financial asset that is more than 30 days past due, because it makes the model more operational for retail products. Some have indicated that delinquency works

well as an indicator of significant deterioration when considered in combination with other information such as restructurings (described by some as ‘delinquency plus’).

61. However, for retail portfolios, for which they do not have any more up-to-date borrower specific credit information, many banks involved in outreach indicated that delinquency is the main driver of internal behavioural scores and that they intend only to consider delinquency information in determining whether significant deterioration has occurred. This indicates to the staff that if the model is to truly be forward looking changes need to be made to the model.

Measurement of lifetime ECL

62. Preparers were unanimous that lifetime expected credit losses should be recognised for assets that have deteriorated significantly in credit quality since initial recognition.
63. Nearly all said that measuring lifetime expected credit losses for financial assets without signs of significant deterioration would be operationally too complex, especially for long-dated exposures. Participants were also concerned about the reliability of a lifetime ECL estimate for these financial assets, because little or no asset-specific data is available on which to base forecast lifetime expected credit losses. This feedback was despite clarification that we would intend that measurement based on long term loss rates would typically be appropriate for periods beyond which more detailed estimates could be made.

Discount rate

64. Preparers agreed unanimously that expected credit losses should be discounted because it is consistent with amortised cost being a present value concept in IFRS.
65. However, concerns have been raised about the range of the discount rates that can be used when discounting expected credit losses on financial instruments for

which there is no objective evidence of impairment³. Feedback during the outreach indicated that permitting a range of discount rates between the risk free rate and EIR, without further guidance on what would be an appropriate rate to use, could have a significant impact on the expected credit loss amounts. This would be the case, for example, for high interest rate environments or high risk products where higher interest rates are charged to cover the higher levels of credit risk. These preparers recommend that expected credit losses should be discounted using the effective interest rate (EIR) (or an approximation thereof).

66. Others supported the permissible range of discount rates because it does not cause the operational challenges the EIR would cause. They said that allowing entities to choose an appropriate rate within the permissible range of the discount rates would allow them to choose a rate that would:
- (a) not require them to track a historical discount rate on a transaction level; and
 - (b) enable them to apply the rate they use for regulatory purposes where this rate is within the range.

Calculation of interest revenue

67. Preparers had mixed views on the proposal to calculate interest revenue on a net basis when there is objective evidence of impairment (those that are in Stage 3). Some agree with reflecting the economic yield on these assets. These preparers also consider the non-accrual basis to be inconsistent with amortised cost measurement as a present value concept.
68. However, others were in favour of a non-accrual basis, primarily because it is operationally easier and also in some cases consistent with the regulatory treatment for these assets.

³ Based on feedback received on the 2011 SD, the Board confirmed that the discount rate would be flexible for the proposals in the ED to help ease preparers' operational challenges of determining and maintaining the discount rate.

Simplified approach

69. In general, preparers supported the inclusion of the simplified approach for lease and trade receivables but had mixed views on whether they would apply the simplified approach. Often the decision of whether to apply the simplified approach or general model depended on the sophistication of the preparer's credit risk management system and on the life of the assets. However, feedback obtained during discussions with lessor participant groups indicated that they plan to apply the general deterioration model.

Other observations

70. During our outreach preparers have also provided us with input on some other areas to consider such as on loan commitments and on the notion of default.

Loan commitments

71. The proposals require the expected credit losses associated with loan commitments to be estimated over the maximum contractual period over which the entity is exposed to credit risk, and not a longer period even if that would be consistent with business practice.
72. Although some preparers agree with the conceptual justification for estimating the expected credit losses for loan commitments over the contractual period, the majority of respondents are concerned that:
- (a) it will be contrary to credit risk management; and
 - (b) it might be contrary to users' and regulators' expectations about expected credit losses on these products because the contractual commitment period could be as little as one day for both drawn and undrawn commitments.
73. In addition, they are concerned that it would result in outcomes for which no actual loss experience exists on which to base estimates. That is because they usually do not cancel the facility and use the behavioural life to estimate expected losses for regulatory purposes.

74. These preparers have suggested estimating expected credit losses over the expected behavioural period for these products, the horizon to the next decision to renew the facility (eg annual implicit or explicit reviews of the credit limit) or aligning it with the 12-month outlook period for financial assets that have not deteriorated significantly.

Definition of default

75. Many have told us that providing more guidance on the notion of default is important because it affects the assessment of significant deterioration and the population of financial instruments for which a 12-month expected credit loss allowance is recognised.

Transition and effective date

76. With regard to the transition provisions, preparers requested that the IASB should consider more practical approaches that will enable them to assess deterioration. The ED proposes that if an entity cannot determine (without undue cost or effort) significant deterioration since initial recognition of a financial instrument, a loss allowance of lifetime expected credit losses would be recognised for the instrument at transition and throughout its life (unless it has low credit risk as at a reporting date). Many preparers consider this to be unduly onerous and asked the IASB to consider practical ways in which to estimate the amount of deterioration on transition.
77. Although preparers agree with the need to finalise the Standard expeditiously, they also indicated that they need a considerable amount of lead time to implement the revised model. Generally, an implementation period of three years was requested to allow sufficient time to design, build and test the new system before the date of initial application. In regard to the effective date, preparers request that:
- (a) All phases of IFRS 9 *Financial Instruments* should become effective on the same date. Some also request that the Standard in its entirety should be available for early application.

- (b) The effective date of IFRS 9 should be aligned to the effective date of the new Insurance Contracts Standard. Insurers request that where the dates are not aligned, clarity should be provided on the scope inclusion of premiums receivables.
- (c) The IASB should consider aligning the effective dates for the new Leases Standard and IFRS 9.

Appendix A

Prior feedback on the three-bucket model

A1. In October 2012 the staff presented a summary of the feedback received to date on the three-bucket model. This outreach included discussions with 13 buy-side and sell-side analysts from various geographical regions. The majority of analysts from that outreach favoured the three-bucket model instead of the Day 1 lifetime expected credit loss model, because they thought it better reflects the economics of lending. The main feedback points were:

- (d) a Day 1 lifetime loss approach distorts profit and loss and does not depict economic reality;
- (e) a Day 1 lifetime loss is too prudential and may negatively influence management behaviour;
- (f) the three-bucket model better represents changes in credit quality and is more sensitive to credit deterioration;
- (g) there was general concern about management judgement involved to determine when to recognise lifetime losses, and more clarity on the transfer criteria was requested (though there was no support for a bright line); and
- (h) some preferred a Day 1 lifetime loss model because of concern about the judgement of when to recognise lifetime losses and the arbitrariness of the 12 months definition.

Some analysts favoured the original 2009 ED approach as the best representation of the economics.