# AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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| SYDNEY | APRIL 2014 | **Agenda ref 3C(i)** |
| PRESENTER | SUE LLOYD | |
| AUTHORS | KUMAR DASGUPTA/TIERNAN KETCHUM | |

## Financial Instruments: Impairment: due process 'life cycle' review

### Overview

1. This report summarises the due process considerations for the impairment phase of the IASB's financial instruments project. This project will result in a new chapter to (and when combined with the limited amendments to classification and measurement, a new issuance of) IFRS 9 *Financial Instruments*. This issuance of IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and earlier versions of IFRS 9 (as issued 2009, 2010 and 2013).

### Background

2. At its meeting in February 2014, the IASB considered a Due Process paper on this project, which illustrated how the IASB has complied with due process requirements over the lifecycle of the project[1]. That paper also sought the IASB's confirmation that it is satisfied that it has undertaken sufficient consultation and analysis to be able to begin the balloting process for the impairment chapter of IFRS 9. A copy of that paper is reproduced at Agenda Paper (AP), 3C (ii). The section of that paper on due process steps (from paragraph 31 onwards) is particularly relevant. Another paper for that meeting[2] provided the IASB with a summary of the key concerns and issues raised since the publication of the Exposure Draft (ED) in 2013 *Financial Instruments: Expected Credit Losses* (the 2013 ED), together with an update on the FASB's tentative impairment model for financial instruments.

[1] A copy of this paper, Agenda Paper 5C for the IASB's meeting in February 2014, was circulated to the DPOC under cover of an e-mail from Henry Rees dated 10 February 2014.

[2] Agenda Paper 5B, a link to which was provided in the e-mail of 10 February.

3. At its February meeting, the IASB considered whether there was a need to re-expose the impairment proposals for public comment. After consideration of the re-exposure criteria in the *Due Process Handbook*, the IASB decided that re-exposure was unnecessary. The IASB also stated that it was satisfied that it has completed all of the necessary due process steps required to date and therefore instructed the staff to proceed to drafting and balloting the final requirements for impairment to be incorporated into IFRS 9.

4. Appendix A to this report summarises discussions with the Trustees and the DPOC on that have occurred in relation to this project.

5. In addition to the detailed analysis of due process steps undertaken that is contained in Agenda Paper 3C (ii), I would like to emphasise some key considerations and recount the development of the project from a due process perspective (paragraphs 6-26). I would additionally like to note the efforts made in respect to convergence (paragraphs 27-38).

**Lifecycle of due process efforts undertaken**

6. As illustrated in the following subsections, and as explained in the IASB's Due Process Paper, the IASB has issued five consultative documents relating to the impairment of financial instruments project:

   (a) Discussion paper *Reducing Complexity in Reporting Financial Instruments* (2008)

   (b) *Request for information on the feasibility of the expected cash flow approach* (2009)

   (c) Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (2009)

   (d) Supplementary Document *Financial Instruments: Impairment* (2011)

   (e) Exposure Draft *Financial Instruments: Expected Credit Losses* (2013)

7. The impairment project is part of the IASB's overall project to improve the accounting for financial instruments by replacing IAS 39.

***Preliminary deliberations***

8. In March 2008 the IASB published for comment the DP *Reducing Complexity in Reporting Financial Instruments*. The DP identified that the requirements for recognising impairment had been criticised for many reasons, and that impairment losses on financial assets measured using a cost-based method raised various issues including the delayed recognition of changes in credit risk. The DP went on to note that:

> "In the long run, impairment issues have to be addressed if cost-based measures continue to be required or permitted."

9. As part of the joint approach to deal with financial reporting issues arising from the financial crisis, the IASB and US Financial Accounting Standards Board ('FASB') established the Financial Crisis Advisory Group ('FCAG') in October 2008 to consider how improvements in financial reporting could help enhance investor confidence in the financial markets. The report of the FCAG, issued in July 2009, named "the delayed recognition of losses associated with loans, structured credit products, and other financial instruments by banks, insurance companies and other financial institutions" as a primary weakness of existing accounting standards. The FCAG went on to recommend that "the Boards should explore alternatives to the incurred loss model for loan loss provisioning that use more forward-looking information. These alternatives include an expected loss model and a fair value model." The FCAG also noted that having multiple approaches to recognizing impairment contributed to the extraordinary complexity of accounting for financial instruments.

10. In June 2009 a request for information ('the RFI') on the feasibility of the expected cash flow (the 'ECF') approach was posted to the IASB website for comment with responses requested by 1 September 2009. The staff conducted extensive outreach activities in conjunction with the RFI, involving 30 one-on-one and small group discussions with different financial and non-financial entities, auditors, regulators, and others. The discussions often involved numerous follow-on discussions with the same party. These outreach activities covered different geographical areas, including emerging economies.

***Exposure Draft—Financial Instruments: Amortised Cost and Impairment***

11. On 5 November 2009 the IASB issued the Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (the '2009 ED') for comment, which proposed an integrated measurement of amortised cost by adjusting the effective interest rate for the initial expectations of credit losses. The 2009 ED had an extended eight-month comment period ending on 30 June 2010. The IASB also undertook significant outreach activities during the comment period. Groups consulted included preparers, auditors, regulators and users of financial statements. Outreach activities included individual meetings, group meetings and a user questionnaire. In addition, the IASB set up an Expert Advisory Panel (the 'EAP') consisting of credit risk experts to consider the operational issues arising from the proposals.

12. The IASB has consistently noted that the 2009 ED most appropriately reflected the relationship between initial estimates of credit losses and pricing. This was accomplished through an effective interest rate that was adjusted for initial expectations of credit losses, and a carrying amount measured at amortised cost that was always equal to the present value of the expected future cash flows discounted at that credit-adjusted effective interest rate. Any changes to this carrying amount resulting from changes in credit loss expectations would have been recognised immediately in profit and loss.

13. In general, there was strong support for moving towards an expected credit loss ('ECL') impairment approach and for the concepts in the 2009 ED. However, many operational concerns were raised in relation to the 2009 ED, which the IASB attempted to address through the Supplementary Document (the 'SD').

***Supplementary Document—Financial Instruments: Impairment***

14. On 31 January 2011, the IASB and the FASB jointly published the SD *Financial Instruments: Impairment* as a supplement to their original Exposure Drafts[3]. During the comment period, the IASB and FASB organised and conducted a joint outreach programme that encompassed commentary from over 1,000 constituents, representing over 100 different organisations in all. Meetings were attended by both IASB and FASB members and by members of their respective staffs.

[3] The FASB's initial Exposure Draft proposed the full recognition of expected credit losses on initial recognition.

15. The SD required that an entity should recognise an allowance for ECL at an amount that depended on whether a financial asset was in the 'good book' or 'bad book'. For the bad book, an entity would recognise lifetime ECL, whereas for the good book an entity would recognise an amount equal to the greater of credit losses that are expected in the foreseeable future and a time-proportionate amount of lifetime ECL[4].

16. Overall, the boards did not receive strong support for the SD and there were differing suggestions as to how to move forward that reflected significant geographical differences in opinion. A decision was made to develop a variation of the previous proposals, taking into account the feedback on the boards' original Exposure Drafts and on the SD.

***Joint deliberations***

17. The importance of achieving convergence compelled the IASB and FASB to jointly develop a new expected credit loss model. In May 2011[5], the boards decided to develop a model that would reflect the general pattern of deterioration in the credit quality of financial instruments, the so-called 'three-bucket model'. In the three-bucket model, the amount of the expected credit losses recognised as a loss allowance or provision would depend on the level of deterioration in the credit quality of financial instruments since initial recognition.

18. In July 2012, the IASB and the FASB finished deliberating all the joint matters in the development of a general framework for the three-bucket model. However, in August 2012, in response to feedback received from interested parties in the US about the three-bucket model, the FASB began exploring an alternative expected credit loss model that:

    (a) did not use a dual-measurement approach; and

    (b) reflected all credit risk in the portfolio at each reporting date.

19. Following the FASB's announcement, the IASB conducted outreach to help it decide whether it should continue to develop the three-bucket model. Overall, the majority of participants in the IASB's outreach, including users of financial statements, supported a

[4] The time-proportional ECL was determined either by multiplying the lifetime ECL by the ratio of the portfolio's age to its expected life; or by converting the lifetime ECL for the remaining life of the portfolio into annuities on the basis of the expected life of the portfolio and accumulating those annuities for the portfolio's age.

[5] May 2011 IASB (FASB) Agenda Paper 6 (91).

model that distinguishes financial instruments that have deteriorated significantly in credit quality from those that have not. However, some noted that their support for the model was dependent on whether the benefits of the information provided outweighed the costs of determining when financial instruments have deteriorated significantly in credit quality. Consequently, the IASB decided to propose a model that was similar to the three-bucket model. However the IASB clarified and simplified that model to reflect the views that it had received.

***Exposure Draft—Financial Instruments: Expected Credit Losses***

20. On 7 March 2013 the IASB published the 2013 ED. The ED had a four-month comment period ending on 5 July 2013. The IASB received 175 comment letters as of the time of the staff's July 2013 comment letter summary. A total of 187 comment letters were ultimately received on the 2013 ED. During the comment period, the IASB held outreach meetings with a variety of constituents including preparers, users of financial statements, auditors, national standard-setters, regional bodies with an interest in financial reporting and regulators. The outreach activities involved constituents from Africa, Asia-Oceania, Europe, North America and Latin 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. In July 2013 the staff presented the boards with a summary of the feedback obtained through those outreach activities[6]. The comment period on the 2013 ED overlapped with that of the FASB's last impairment Exposure Draft. This enabled constituents to compare the proposals. The feedback on the FASB's document was presented at a joint meeting in July 2013.

21. The IASB also invited a number of preparers to participate in detailed fieldwork to test and discuss the proposals[7]. The fieldwork was designed to provide feedback on the complexity of applying the proposals, to provide information about the responsiveness of the model over a period of time using assumptions about economic variables and to give an indication of the overall effect on allowance balances relative to current impairment requirements. Fifteen entities participated in the field work. The participants represented

[6] July 2013 IASB Agenda Paper 5A.
[7] July 2013 IASB Agenda Paper 5B.

a range of jurisdictions including Europe, South Africa, Asia-Oceania, North America and Latin America. Most of the participants were banks but some corporates also participated. A summary of the fieldwork was provided to the DPOC in January 2014 (AP 3F(ii)).

22. The 2013 ED, like the SD, sought to approximate the outcome of the 2009 ED in regard to the economic relationship between the pricing of financial instruments and credit loss expectations, while addressing the operational challenges of the original 2009 proposals. The general model proposed required an entity to recognise lifetime ECL after a significant increase in credit risk has occurred and 12-month ECL on all other financial instruments.

***Redeliberations leading to the receipt of permission to ballot***

23. The vast majority of respondents supported the proposals in the 2013 ED as an appropriate balance between faithful representation of credit losses on financial instruments, and the costs of producing that information. Most specified that they agree with the IASB that initial credit loss expectations are priced into assets when originated or purchased, and continued to support an approach that considers deterioration in credit quality when deciding the extent to which expected credit losses should be recognised.

24. Respondents also considered the proposed model to reflect the underlying economics of a lending transaction in a pragmatic way, while easing the operational complexities that would have arisen from the application of the IASB's 2009 ED. Although most considered the proposed model to lack conceptual justification in requiring recognition of 12-month ECL from initial recognition, they did not think that there is a better alternative available that will achieve the same balance of benefits versus cost. The vast majority of users of financial statements that provided feedback found the distinction between financial instruments that have deteriorated significantly in credit quality, and those that have not, relevant and useful as this reflects the change in credit quality over the lifetime of the financial instruments.

25. The IASB identified several significant points of feedback raised by constituents that it addressed during redeliberations that took place from July 2013 to February 2014. These

issues, and how they were addressed, are presented in detail in the accompanying impairment Due Process paper.

26. In February 2014, after redeliberation on all technical issues of the 2013 ED, the IASB noted that it considered the revisions to that ED largely confirmed and clarified a the proposals in response to the feedback received. As such, it agreed with the staff conclusion that due process requirements had been met and that re-exposure was unnecessary and was unlikely to reveal any new information. The IASB consequently granted staff the permission to proceed to ballot the final version of the impairment chapter of IFRS 9.

**Convergence**

27. The FASB started its redeliberations on its proposed current expected credit loss ('CECL') model in September 2013 and discussed some clarifications to the measurement of ECL to address measurement-related concerns raised by constituents. The CECL model would result in all expected credit losses being recognised on financial instruments from initial recognition.

28. Subsequent to the September 2013 joint meeting, the FASB decided to explore various impairment models, focussing on the benefits, costs and complexities of each impairment model explored, in light of concerns raised primarily by preparers regarding the recognition and measurement of lifetime expected credit losses.

29. On the basis of the feedback the FASB received related to the income statement impact of CECL, the FASB analysed the impact of the CECL Model compared with other credit loss models under various lending and economic assumptions. In December 2013 the FASB discussed the following four alternatives as the path forward on the project[8]. One of these alternatives was developing a model similar to that of the IASB.

30. The FASB considers the CECL Model a significant improvement to U.S. GAAP because in addition to removing the "probable" threshold for impairment recognition and allowing the use of forward-looking information, the balance sheet would reflect all the cash flows that an entity expects to collect on its financial assets. Furthermore, the FASB believes

[8] See FASB Board Meeting handout, publicly available at http://www.fasb.org

that the single measurement objective of the CECL model reduces the complexity that exists with impairment guidance in current U.S. GAAP and that the CECL Model is the simplest expected credit loss model for investors to understand and use in their analyses.

31. The FASB therefore decided to continue to refine its CECL model. According to its Current Technical Plan, the FASB plans to finalise its impairment project by the second half of 2014.

32. Convergence remained a key consideration of the IASB subsequent to the publication of the 2013 ED. Through the extensive due process steps undertaken over the course of the project the IASB has been able to obtain information about the importance placed on convergence by stakeholders and to understand where there were differences in opinion when comparing the models proposed by the IASB and the FASB, and the reasons for those differences. A thorough understanding of the issues surrounding convergence was obtained by exposing separate and common proposals at various points over the life of the project. The key themes surrounding the project have been fairly consistent over the life of the various consultative documents—though the push for convergence was stronger earlier in the life of the project before it was apparent just how different and strongly held the views of US and non-US respondents are.

33. For many respondents to the 2013 ED convergence was still preferable, *as long as it was not at all costs.* For most respondents their preference for a converged impairment model was subject to it being similar to the impairment model proposed in the 2013 ED. Only a very limited number of respondents preferred convergence to the model most recently exposed by the FASB[9].

34. Very few respondents demanded convergence at the cost of finalising the requirements in a timely manner. Many respondents urged the IASB to finalise the proposed model as soon as possible, with or without convergence.

35. Generally preparers responding to the IASB expressed a preference for the IASB's model. However, differences in views from the users of financial statements were reported by the FASB and the IASB. The FASB reported that users of financial statements supported its

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9 Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15) issued December 2012*

model by a margin of 3 to 1[10] . The IASB however reported on its outreach activities that a majority of non-US users preferred an impairment model similar to what was proposed in the 2013 ED, while the majority of US users preferred a model similar to what the FASB proposed[11].

36. Due to importance of the user perspective and due to the apparent inconsistency in feedback subsequent to the comment letter analysis discussed in July 2013, the IASB has conducted further outreach activities to understand the reasons for the difference in the feedback received by the IASB and FASB on their respective EDs.

37. In summary, the IASB identified the following:

(a) The starting point for loss allowances in accordance with US GAAP is different from the starting point of IFRS preparers, with US GAAP preparers tending to have larger impairment allowances. Rightly or wrongly, the IASB believe that this difference in starting point has influenced users' perceptions of the two proposed models.

(b) The interaction between the role of prudential regulators and accounting impairment is historically stronger in the US.

(c) As a result of the history above, many users in the US place greater weight on the adequacy of loss allowances in the balance sheet.

(d) Because the boards' proposals were finalised at different times, the initial outreach that was performed in the US (around the end of 2012) could not have been an accurate comparison of the two models simply because the IASB had not yet published its 2013 Exposure Draft.

38. During the redeliberations the IASB was made aware of the feedback received from all respondents, including the users of financial statements. The issue of convergence has been discussed at length throughout the course of the project and the IASB was made aware of the different path that the FASB tentatively decided to pursue prior to being asked for permission to proceed to ballot in February.

[10] See July 2013 IASB Agenda Paper 5D
[11] See July 2013 IASB Agenda Paper 5A

**Prudential Regulators**

39. Throughout the impairment project we have sought feedback from prudential regulators. We have met the Basel Accounting Expert Group[12] regularly throughout the process both in forums such as the Three Way Dialogue with the International Institute of Finance and in one-on-one meetings. In finalising the impairment chapter of IFRS 9 we will share the draft with them and seek their input.

[12] Previously named the Basel Accounting Task Force

**Appendix A**

**IMPAIRMENT (EXPECTED CREDIT LOSSES) FORTHCOMING PART OF IFRS 9 DUE PROCESS LIFE CYCLE REVIEW: REPORTING TO THE TRUSTEES AND THE DUE PROCESS OVERSIGHT COMMITTEE (DPOC)**

| **Date** | **Trustees/DPOC** | **Report** |
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| Mar 2008 | Trustees | Reference in *Report of the IASB Chair* (Agenda Paper, AP, 4) anticipating the issue of a Discussion Paper (DP) on financial instruments that addressed measurement-related problems and hedge accounting. That report also noted that IFRS and US GAAP had quite different impairment requirements. It stated that, owing to staff shortages, this project had not yet started but would do so once resources became available. |
| Jul 2008 | Trustees | Reference in the *IASB Chairman's Report to the Trustees* (AP4A) referring to the DP *Reducing Complexity in Reporting Financial Instruments* that was out for comment (closing date for comments 19 September 2008). |
| Oct 2008 | Trustees | Reference in *The IASB's Work Plan – October 2008* (AP5B) to the comment period on the above DP having closed on 19 September 2008 and that the Board would consider moving the project from the research agenda to the active agenda in Q4 2008. |
| Jan 2009 | Trustees | Reference in *Response to the Global Financial Crisis* (AP5C) noting that: "Both the IASB and the FASB, whose respective standards have different impairment requirements, have asked their staff to consider together how existing requirements relating to reversals of impairment losses might be changed, and to report back to the boards in the next month. The boards will also address the whole question of impairment as part of an urgent broader project in 2009, and this will also be a topic for consideration by the Financial Crisis Advisory Group (FCAG)". For the medium-term, the paper noted the views of stakeholders to improve the impairment requirements, among other things. The paper noted that the IASB and the US FASB had agreed to fast track this urgent project, which could involve significant changes to IAS 39 and the relevant US standards. |
| Apr 2009 | Trustees/Monitoring Board (MB) | Reference in *Draft Report of the IASB Chairman – 2008 Annual Report* (AP2D) that: "The boards will also address the whole question of impairment as part of an urgent broader project in 2009, and this will also be a topic for consideration by the FCAG". |
| Jul 2009 | Trustees | Reference in IASB *Chairman's Report* (AP5A) to giving |

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| | | priority —in advance of other topics covered in the IAS 39 replacement—to the stage of the comprehensive project on classification, measurement and related impairment issues. |
| Oct 2009 | Trustees | Reference in *The IASB's response to issues arising from the financial crisis* (AP4A) to the fact that the IASB was working closely with the Basel Committee on Banking Supervision on provisions. It noted that: "The IASB is now meeting with prudential supervisors who have implemented dynamic provisioning, and is working with financial institutions to test the feasibility of approaches to an expected loss model. In June 2009 the IASB published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets, and has held numerous detailed discussions with banks, insurers, regulators and others about the feasibility of such an approach". |
| Jan 2010 | Trustees | Reference in *Report of the IASB Chairman* (AP4A) to the 5 November 2009 publication of an Exposure Draft (ED) on the amortised cost measurement and impairment of financial instruments. The report noted that: "The global financial crisis has led to criticism of the incurred loss model for presenting an initial, over-optimistic assessment of credit losses, only to be followed by a large adjustment once a trigger event occurs. Responding to requests by the G20 leaders and others, in June 2009 we published a *Request for Information* on the practicalities of moving to an expected loss model. The responses have been taken into account in developing our exposure draft". Noting the significant practical challenges of moving to an expected loss model, the report referred to both the Expert Advisory Panel (EAP) that had been set up, and the fact that the ED had an 8-month comment period to allow adequate time for entities to consider the impact of such a change within their organisation. |
| Mar 2010 | Trustees | Reference in *The Technical Agenda* (AP2C(i)) as above. |
| Jul 2010 | Trustees | Reference in *Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards* (AP5) to the IASB and FASB considering together "the comment letters and other feedback we receive in an effort to reconcile our differences in ways that foster improvement and convergence. Additionally, our *expert advisory panel* is helping the boards identify and resolve operational aspects of our respective credit impairment models". |
| Sep | DPOC | Reference in paper *Project to replace IAS 39* (AP1) to progress |

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| 2010 | | on the impairment phase, noting that - depending on the changes made to the proposed model during redeliberations - the Board aimed to publish either another ED or final requirements in Q4 2010. |
| Oct 2010 | Trustees | Reference in *Report of the IASB Chairman* (AP7A) to the project, noting that the ED had generated broad support for a move to an expected loss impairment model. However, a number of operational challenges had been identified, and the EAP had suggested solutions for many of these issues. The Board had been working through the issues identified by comment letter respondents, by the EAP and in the IASB's extensive outreach programme, conscious that, given the comments received, any modified proposals were likely to need to be published as another exposure document. The report also referred to the active dialogue with prudential supervisors, including having regular meetings with the Accounting Task Force of the Basel Committee on Banking Supervision. |
| Feb 2011 | Trustees | Reference in *Chairman's Quarterly Review* (AP8A) to progress on the project, noting that the IASB and FASB had begun to develop a model for impairment accounting that was a variant of its original proposal. Both boards were committed to enhancing comparability internationally in the accounting for financial instruments, in particular in seeking a common solution to the accounting for the impairment of financial assets. The report noted that the importance of achieving a common solution to this particular issue had been stressed to the boards by the G20, regulators and others. The report also referred to the issue of the Supplementary Document (SD) *Financial Instruments: Impairment.* |
| Mar 2011 | Trustees | Reference in *IASB Chairman's Report* (AP7) to the initial feedback from outreach activities on the SD, which had elicited a mixed response. Many would prefer the IASB's simplified proposals—seeing the addition of a floor as a complication. Others preferred aspects of the US model. The boards would be discussing the project in public in the coming weeks. |
| Jul 2011 | DPOC | Reference in *General Update* (AP2F) noting that the boards received 212 comment letters on the SD, a summary of which was presented to the boards at their public meeting in April. Views were mixed, mainly split on geographical lines reflecting current practice. The most common and consistent message received was that the IASB and FASB must reach a common solution.<br>The *Summary of the conclusions of the Trustees' DPOC meeting* noted that the DPOC considered the IASB's work to |

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| | | conclude the reform of its financial instruments accounting standard. The DPOC urged the IASB to seek a common solution with the FASB with regard to impairment, hedge accounting and offsetting. |
| Jul 2011 | Trustees | Reference in *Report by David Tweedie, Immediate Past Chairman of the IASB* (AP8), as above. |
| Oct 2011 | Trustees | Reference in *Report of the IASB Chair* (AP2 and Appendix B to AP2) noting that the boards were continuing to develop an impairment model building on the previously exposed proposals, taking into account the feedback from the boards' original EDs and the SD. That approach placed financial assets into three categories (or 'buckets') for the purpose of assessing expected losses, making the maximum use of credit risk management systems. It stated that the next step in the process was likely to be an ED, to be published jointly with the FASB. |
| Jan 2012 | Trustees | Reference in *Report of the IASB Chair* (AP2 and Appendix B to AP2) to progress on the project. The report highlighted that the IASB was aware of the importance of finalising the impairment project expeditiously as impairment accounting had been a primary area of concern during the financial crisis. However, impairment accounting had major cost and systems implications, particularly for financial institutions so there was a need to balance the need for timely completion against the importance of obtaining robust input from constituents. |
| Apr 2012 | Trustees | References in *Report of the IASB Chair* (AP2) and *The Technical Agenda* (AP2B) noting that the boards were working towards publishing a joint proposal for comment in the second half of 2012.<br>The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Trustees were informed that agreement had been reached on the main principles for the new impairment part of the standard, but it was possible that there would not be complete convergence. |
| Apr 2012 | DPOC | Reference in *Due Process Update* (AP3G) noting that the IASB had already exposed impairment proposals for comment twice. Since July 2011 the IASB and the FASB had been developing an expected loss model that was substantially different from the proposals previously exposed for comment. The boards would therefore most likely re-expose their proposals once deliberations were complete. It was anticipated that re-exposure would occur in the second half of 2012. However, no formal decision on re-exposure had yet been made. |
| Jul 2012 | Trustees | References in *Report of the IASB Chair* (AP2) and *The* |

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| | | *Technical Agenda* (AP2B) noting that the current plan was to complete joint deliberations and issue largely aligned EDs in the second half of 2012, most probably in Q4. |
| Jul 2012 | Trustees/MB | Reference in *Report of the IASB Chairman* (AP MB3) that: "The IASB is aiming to finalise deliberations on their proposals on Impairment accounting and Classification and Measurement in July 2012. To date these deliberations have resulted in substantially converged outcomes". |
| Jul 2012 | DPOC | Reference in *Update on Technical Activities* (AP4D) noting that redeliberations on impairment were "now substantially complete". |
| Oct 2012 | Trustees | Reference in *Report of the IASB Chair* (Agenda Paper, AP, 2) noting the decision taken by the FASB In July 2012, after discussing the tentative impairment decisions with US stakeholders, to explore a different approach—one still based on expected losses, but where lifetime expected losses were recognised for all loans from initial recognition. The report highlighted that the IASB did not support the recognition of lifetime expected losses when a financial asset was first recognised. It also noted that IASB was still planning to issue an ED in Q4 2012.<br>The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Chair of the IASB had reported to the Trustees the challenging situation on impairment and the view that he was not confident that a converged solution would be reached. |
| Oct 2012 | DPOC | Reference as above in *Update on Technical Activities* (AP 3B). The *Report of the DPOC meeting* noted the comments above as reported to the Trustees. |
| Jan 2013 | Trustees | Reference in *Technical Projects – Update* (AP 2B) noting that following the FASB's decision to pursue a different impairment model (referred to as the Current Expected Credit Loss Model or CECL), the IASB undertook additional outreach with stakeholders about the current "three-bucket" model. A majority of those involved in the outreach (including users of financial statements) agreed that it was appropriate to differentiate the allowances on loans that had deteriorated from those that had not. The IASB's current plan was to issue an ED in Q1 2013. It was noted that the FASB had issued an ED on its proposals in December 2013. The report commented that: "Despite the difficulties the two boards have experienced trying to find a common approach, our respective stakeholders still have a strong desire for us to achieve a common solution. The IASB continues to have an open line of communication |

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| | | with the FASB and will discuss developments as they move forward”.<br>The *Summary of the conclusions of the IFRS Foundation Trustees’ meeting* recorded that the Chair of the IASB had reported to the Trustees that impairment was the most important, and most sensitive, part of the overhaul of accounting for financial instruments and that the IASB and FASB were taking different approaches. |
| Jan 2013 | DPOC | Reference as above in *Update on Technical Activities* (AP 3C (i)) as above. This paper also noted that the IASB would supplement the formal comment letter process by undertaking field work to test the operationality of the proposals.<br>The *Report of the DPOC meeting* outlined the report made to the DPOC on the FASB’s decision to diverge from a common approach with the IASB. It also referred to wider criticisms of the incurred loss model and the importance of developing an expected loss model. It noted that: “The DPOC did not disagree with the view that the IASB had complied with all the due process requirements in the development of the current impairment model, but stressed the importance of reporting fully those steps, for example in the reporting of the outreach that had been undertaken. Given the sensitivity of the project, it was important to be able to give a positive message on due process and to defend the decisions taken by the IASB”. |
| Apr 2013 | Trustees/MB | Reference in *Report of the IASB Chairman* (AP MB2) noting the particular focus on the new impairment model, but highlighting the fact that the project had been “hampered by operational concerns and differences in view globally”. The report noted the different proposals of the IASB and FASB and the intention of the boards to consider the feedback received on both proposals and to investigate opportunities to bring the models closer together. |
| Apr 2013 | Trustees | References in the *Report of the IASB Chair* (AP 2) and *Technical Projects – Update* (AP 2A) highlighting the differing proposals by the IASB and FASB in their respective EDs.<br>The *Summary of the conclusions of the IFRS Foundation Trustees’ meeting* recorded that the Chair of the IASB had reported to the Trustees and the Monitoring Board that the impairment project was the most important, and most sensitive, part of the overhaul of accounting for financial instruments. The Chair reported the different approaches being taken by the IASB and the FASB and he encouraged securities regulators to examine closely the proposals. |
| Apr | DPOC | Reference in *Technical Projects – Update* (AP 3A) as above. |

| Date | Trustees/DPOC | Report |
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| 2013 | | The *Report of the DPOC meeting* stated that the DPOC had been updated on the progress of the project. The report noted that the two boards planned to have a joint discussion on the responses to both their proposals, to see if there was common ground to more closely align the approaches and to meet the many calls for the two boards to develop a converged solution. The importance of the project for both securities and prudential regulators was stressed, but that the situation was complicated by the fact that different regulators had different views on the most appropriate approach. |
| Jul 2013 | Trustees | Reference in *Report of the IASB Chair* (AP 2) to outreach being undertaken on impairments, for which redeliberations would soon recommence.<br>The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Chair of the IASB had reported to the Trustees the latest developments on impairment. The general impression of the comment letters to the IASB was one of support for the proposals in its ED and a view that, while convergence with the US was important, the IASB should focus on refining its proposals and complete the project on a timely basis. The summary acknowledged that while the models proposed by the IASB and FASB might move closer together, the view was that convergence was not likely to be achieved. |
| Jul 2013 | DPOC | Reference in *Technical Projects – Update* (AP 3B) to the latest developments on impairment, including the detailed field work. The paper referred to the presentations to the Accounting Standards Advisory Forum (ASAF) on both the IASB and FASB proposals. The paper also noted that in July 2013 the two boards would meet to have an initial discussion on potential approaches to align their impairment proposals taking into account information received during the comment periods.<br>The *Report of the DPOC meeting* stated that the DPOC had been updated on the progress of the project, as above. It also recorded that, as with the other projects, the DPOC was satisfied that all the due process requirements were being met. |
| Oct 2013 | Trustees | Reference in *Report of the IASB Chair* (AP 2) to outreach being undertaken on impairments.<br>The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Chair of the IASB had reported to the Trustees that while the two boards planned to have joint discussions and consider the extent to which their models might move closer together, the view remained that convergence was not likely to be achieved. |

| Date | Trustees/DPOC | Report |
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| Oct 2013 | DPOC | Reference in *Technical Projects – Update* (AP 3B) on latest developments on the project, noting that overall the feedback received by the IASB was positive.<br>The *Report of the DPOC meeting* stated that the DPOC had been updated on the progress of the project as above and that the IASB was continuing to work hard, including undertaking extensive fieldwork, to make its proposals operational. It noted that the prospect of convergence with the US was unlikely. From a due process perspective, the IASB was confident that it had taken all necessary steps and had sufficient information and feedback to move forward. It also recorded that, as with the other projects, the DPOC was satisfied that all the due process requirements were being met. |
| Jan 2014 | Trustees/MB | Reference in *Report of the IASB Chairman* (AP MB3) to developments, noting that the IASB aimed to substantially complete its redeliberations on the 2013 ED proposals in early 2014 and then to provide an update to the FASB on its tentative decisions.<br>The *Summary of the conclusions of the IFRS Foundation Trustees' meeting* recorded that the Chair of the IASB had reported to the Trustees and the Monitoring Board the latest developments on impairment. It was noted that convergence with the FASB was unlikely. This situation had been discussed in recent meetings of the Financial Stability Board (FSB), which now accepted that there would not be convergence on impairment, but wanted to see the proposals in place as soon as possible. |
| Jan 2014 | DPOC | Reference in *Technical Projects – Update* (AP 3B) as above. The paper also reported that the FASB, at its meeting in December 2013, had elected to proceed with its model for which lifetime expected credit losses were recognised on all financial instruments at all times.<br>The *Report of the DPOC meeting* stated that the DPOC had been updated on the progress of the project, as above. It noted that DPOC asked what were the differences between the IASB and FASB models and that it sought clarification on the views of the FSB in particular, given that the FSB had been calling for a converged solution. The DPOC was informed that the FSB now accepted that there would not be convergence on impairment, but wanted to see the impairment proposals in place as soon as possible. The IASB remained confident that it had taken all necessary due process steps and had sufficient information and feedback to move forward. It also recorded that, as with the other projects, the DPOC was satisfied that all |

| Date | Trustees/DPOC | Report |
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| | | the due process requirements were being met. |
| Feb 2014 | DPOC | E-mail to DPOC 10 February with a copy of a paper to be presented to the IASB *Financial Instruments: Impairment – Due process, re-exposure and permission to draft* (IASB meeting February 2014 AP5C). |