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Project	Financial Instruments: Impairment		
Paper topic	Comparison between proposals in ED and tentative decisions		
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Purpose of this paper

1. Throughout the redeliberation process, the IASB has not been asked whether it wants to proceed to finalise the expected credit loss model proposed in the Exposure Draft *Expected Credit Losses* (the 2013 ED), but rather to consider the feedback received and improvements or modifications to the proposals as if it were to proceed to finalise the 2013 ED. Today the IASB will be asked whether they give permission to proceed to ballot these proposals. Implicit in that decision is agreement by the IASB to proceed with these proposals rather than any alternatives.
2. The purpose of this paper is thus to:
 - (a) provide an update on the FASB's recent decisions;
 - (b) summarise the most significant concerns raised by respondents to the 2013 ED; and
 - (c) describe the ways in which the IASB has addressed these through the tentative decisions reached during redeliberations.
3. This paper does not discuss the feedback received on the period required to implement the tentative expected credit loss impairment model or the mandatory effective date of IFRS 9. This is discussed in **Agenda Paper 5A** of this month's meeting.
4. This paper does not include any questions to the IASB.

Update on the Financial Accounting Standards Board's recent decisions

5. The US Financial Accounting Standard Board (FASB) started its redeliberations on its proposed current expected credit loss ('CECL') model in September 2013 and discussed some clarifications to the measurement of expected credit losses ('ECL') to address measurement-related concerns raised by constituents and decided to clarify that¹:
- (a) an entity should revert to a historical average loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts.
 - (b) an entity should consider all contractual cash flows over the life of the related financial assets, including expected prepayments but not the expected extensions, renewals, and modifications unless it reasonably expects that it will execute a troubled debt restructuring with a borrower.
 - (c) an estimate of ECL should always reflect the risk of loss, even when that risk is remote.
 - (d) in addition to using a discounted cash flow model to estimate ECL, an entity would not be prohibited from developing an estimate of ECL using loss-rate methods, probability-of-default methods, or a provision matrix using loss factors.
6. 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.
7. 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

¹ See *IASB Update* September 2013 <http://media.ifrs.org/2013/IASB/September/IASB-Update-September-2013.pdf>

December 2013 the FASB discussed the following four alternatives as the path forward on the project²:

- (a) **Alternative A: Continue to refine the CECL model:** under this model, the estimate of lifetime expected losses is recognised immediately as an allowance on the balance sheet and as an expense in the income statement. Changes to that estimate due to changes in lending volume and economic conditions are recognised as an increase or decrease of the allowance and an expense in the income statement
 - (b) **Alternative B: Develop a Gross-up model:** under this model it was assumed the estimate of lifetime expected losses is recognised immediately as an allowance on the balance sheet and as impairment expense over a loss emergence period. Changes in the original estimate of ECL due to changes in credit quality would be immediately recognised for existing loans while changes in the estimate due to changes in lending volume would be amortised over loss emergence period.
 - (c) **Alternative C: Develop a Truncated model;** this model represent lifetime losses on events expected to occur in an abbreviated time period and this model could also be developed using a dual measurement objective similar to the US Banking model; and
 - (d) **Alternative D: Develop an impairment model similar to the IASB model:** under this model, an entity would recognize at initial recognition an amount equal to 12 months' worth of expected credit losses (Stage 1) unless significant deterioration in credit quality occurs after initial recognition, in which case the allowance would be measured at amount equal to lifetime expected credit losses.
8. 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 appropriately reflect all the cash flows that an entity expects to collect on its financial assets. Furthermore, the FASB believes that the single measurement objective of the CECL model reduces the complexity that exists with impairment

² See FASB Board Meeting handout, publicly available at <http://www.fasb.org>

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.

9. The FASB therefore **decided to continue to refine the Current Expected Credit Loss (CECL) model** subject to some refinements. This may include clarifications to:
 - (a) purchased credit-impairment assets
 - (b) non-accrual of interest revenue;
 - (c) financial assets measured at fair value through other comprehensive income;
 - (d) disclosure; and
 - (e) application/implementation guidance.
10. According to the FASB's Current Technical Plan, the FASB plans to publish the final Standard by the end of June 2014.

Significant concerns raised by constituents to the IASB's 2013 ED

11. The vast majority of respondents supported the proposals in the 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 continue to support an approach that considers deterioration in credit quality when deciding the extent to which expected credit losses should be recognised.
12. 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 Exposure Draft *Financial Instruments: Amortised Cost and Impairment*. Although most considered the proposed model to lack conceptual justification, 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 find the distinction between financial instruments that have deteriorated and those that

have not, relevant and useful as this reflects the change in credit quality over the lifetime of the financial instruments.

13. The most significant concerns raised by constituents in their feedback on the 2013 ED were related to:
 - (a) Convergence, (paragraphs 15-23);
 - (b) Significant increases in credit risk (deterioration in credit quality) (paragraphs 24-29);
 - (c) 12-month ECL (paragraphs 30-31);
 - (d) Definition of default (paragraphs 32-35);
 - (e) Loan commitments and financial guarantee contracts (paragraphs 36-38);
 - (f) Operational simplifications (paragraphs 39-44);
 - (g) Discount rate (paragraphs 45-47);
 - (h) Disclosures (paragraphs 48-51); and
 - (i) Transition (paragraphs 52-55).
14. For each issue, we have provided:
 - (a) references to the agenda paper(s) addressing the issue;
 - (b) the main concerns raised by respondents in the comment letters and during the outreach activities; and
 - (c) a summary of the IASB's response during re-deliberations.

Convergence

Relevant agenda papers

- AP5A *Outreach feedback summary* (July 2013)
- AP5B *Outreach feedback summary – fieldwork* (July 2013)
- AP5C *Summary of comment letter analysis* (July 2013)

15. Convergence remains a key consideration for the IASB. Through the outreach activities and other consultations undertaken since the publication of the 2013 ED, 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.
16. Although the IASB and FASB published separate exposure drafts ('ED') on their respective impairment models, the boards decided to consider the feedback received on the EDs at a joint meeting.
17. The vast majority of respondents to the 2013 ED, including the majority of users, supported a deterioration model that distinguishes the measurement of ECL for financial instruments that have experienced credit deterioration from those that have not. Reasons provided for supporting the proposed model included:
 - (a) it results in more timely recognition of ECL, thereby addressing the delayed recognition criticism of IAS 39;
 - (b) it reflects the economic loss that arises from changes in the initial expectations of credit losses by recognising lifetime ECL when there has been significant credit deterioration;
 - (c) it is closely aligned to credit risk management practices and prudential regulatory processes for establishing expected credit loss capital reserves, thereby leveraging from existing processes, models and data sets;
 - (d) it is more forward-looking and therefore more responsive to changes in macroeconomic conditions compared to IAS 39; and

- (e) it avoids the excessive front-loading of ECL in comparison with a lifetime ECL model (similar to the FASB's CECL model).
18. Only a few respondents supported a model that recognises lifetime ECL from initial recognition regardless of credit quality. These respondents welcomed the simplicity of a model based on a single measurement objective (ie lifetime ECL on all financial instruments). Furthermore, they believe that reflecting the full loss content of financial instruments provides relevant and useful information for users of financial statements.
19. In contrast, most respondents considered a lifetime ECL model to totally disregard the economic link between the pricing of a financial instrument and its credit quality, thereby diminishing the relevance of financial reporting. Furthermore, the majority of users of financial statements that submitted comment letters on the 2013 ED stated that it is important to maintain the economic link between pricing and credit quality at initial recognition. They were concerned that a lifetime ECL model distorts this economic link by exacerbating the double-counting of ECL incorporated in the pricing of financial instruments compared to the IASB model.
20. For many respondents to the 2013 ED convergence was still preferable, but not at any cost and their preference for a converged impairment model was subject to it being similar to the model proposed in the 2013 ED. Very few demanded convergence at the cost of finalising the requirements in a timely manner. In fact, many respondents urged the IASB to finalise the proposed model as soon as possible, with or without convergence.
21. However, many respondents commented that they are strongly opposed to the IASB and FASB attempting to achieve convergence through disclosure. They noted that if the boards cannot reach a converged solution, preparers should not be forced to effectively implement two expected credit loss models to satisfy such a disclosure requirement.
22. Although preparers responding to the IASB generally expressed a preference for the IASB's model, differences in views from the users of the financial statements were reported by the FASB and the IASB. The FASB reported that users of

financial statements supported its model by a margin of 3 to 1³. The IASB however reported on its outreach activities that a majority of non-US users preferred an impairment model similar to that proposed in the 2013 ED, while the majority of US users preferred a model similar to what the FASB proposed⁴.

23. 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. 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. For example, under US GAAP the concept of ‘Day one losses’ already exists and is of greater magnitude than under IFRS. 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. As a result, users in the US may be more accustomed to seeing ‘prudential impairment numbers’ in the general purpose financial statements. For example, at the moment impairment allowance balances for US banks tend to be higher than outside the US as a result of actions of prudential regulators. It follows that having a model that arguably has a regulatory focus such as that proposed by the FASB is closer to what the US users may be used to.
- (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. While the IASB’s model is also focused on the balance sheet, because it aims to reflect economic losses as closely as possible, it also focuses on whether the statement of profit or loss is correctly reflecting impairment losses and the related interest revenue on these instruments. This is

³ See July 2013 Agenda Paper 5D

⁴ See July 2013 Agenda Paper 5A

because we continue to believe that these instruments are already priced to reflect their credit risk and therefore the statement of profit or loss should reflect this to the extent that this is operationally possible

- (d) because the boards' proposals were finalised at different times, the initial outreach that was performed in the US (around the end of 2012) would have been done without the benefit of having the actual 2013 Exposure Draft, as it had not yet been published. Consequently, this would have made an accurate comparison of the two models extremely difficult.

Significant increases in credit risk (deterioration in credit quality)

Relevant agenda papers

- AP5A *Responsiveness of the general model* (September 2013)
- AP5A *Assessing when to recognise lifetime expected credit losses* (October 2013)

24. The vast majority of respondents agreed that the appropriate point at which to start recognising lifetime ECL, is when there have been significant increases in credit risk since initial recognition. Respondents also agreed that an assessment of when to recognise lifetime ECL should only consider the changes in credit risk (ie the risk of a default occurring) rather than changes in ECL (ie the severity of the loss).
25. However, some raised concerns that as articulated in the 2013 ED, the proposed model may not fully capture the effect of significant increases in credit risk on a timely basis. Many respondents and fieldwork participants noted that they did not have updated information for all products *at an individual exposure level* prior to delinquency. These respondents understood the proposals to mean that significant increases in credit risk could be identified by only applying the more than 30 days past due rebuttable presumption when forward looking information cannot be applied at an individual exposure level.

26. The IASB discussed the responsiveness of the general model, in particular the concern that significant increases in credit risk may not be identified on a timely basis. The IASB considered that a significant increase in credit risk generally occurs before loans become delinquent and that delinquency is a lagging indicator. Such an application of the proposed model therefore risked underestimating the extent to which significant increases in credit risk have occurred.
27. The IASB tentatively decided to clarify that the objective of the ECL model is to recognise lifetime ECL on all financial instruments for which there has been a significant increase in credit risk—whether on an individual or portfolio basis—and that all reasonable and supportable information, including forward-looking information that is available without undue cost or effort needs to be considered. In addition, the IASB tentatively decided to include Illustrative Examples to reflect the intention of the proposals.

Operability of the proposed ECL model

28. Although many preparers commented that they could build upon their internal credit risk management practices to identify significant increases in credit risk, some of them made suggestions to align the proposals more closely with their current credit risk management systems. Others asked the IASB to clarify that a mechanistic approach to assess significant deterioration is not required.
29. The IASB tentatively decided to clarify (potentially through examples) that:
- (a) the assessment of significant increases in credit risk could be implemented more simply by establishing the initial maximum credit risk for a particular portfolio (by product type and/or region) (the 'origination' credit risk) and then comparing the credit risk of financial instruments in that portfolio at the reporting date with that origination credit risk. This would only be possible for portfolios of financial instruments with similar credit risk on initial recognition;
 - (b) the assessment of significant increases in credit risk could be implemented through a counterparty assessment as long as such assessment achieves the objectives of the proposed model; and

- (c) the assessment of when to recognise lifetime ECL should consider only changes in the risk of a default occurring, rather than changes in the amount of ECL (or the credit loss given default (LGD)).

12-month ECL

Relevant agenda papers

- *AP5C Stage 1 Measurement Objective* (September 2013)
- *AP5C Measurement of expected credit losses* (October 2013)

30. Most respondents, including users of financial statements, accepted the 12-month ECL as a pragmatic solution to achieve the appropriate balance between faithfully representing the underlying economics of lending and the cost of implementation. However, some respondents did not agree with recognising any ECL for financial instruments that have not experienced significant increases in credit risk since initial recognition. Others, in particular some regulators and users, were concerned that 12-month ECL would not adequately reflect the ECL inherent in some financial instruments such as interest-only mortgages or bullet repayment loans.
31. The IASB discussed other alternatives for the measurement objective, including some that were previously considered and rejected, as well as having no loss allowance for financial assets that have not experienced significant increases in credit risk (ie financial assets in Stage 1 of the ECL model). The IASB considered the 12-month ECL to be superior to the other alternatives and tentatively confirmed the 12-month ECL as the measurement objective for Stage 1.

Definition of default

Relevant agenda papers

- AP5D *Definition of default* (September 2013)

32. A few respondents commented that the notion of default is fundamental to the assessment of the risk of a default occurring. This is in particular relevant for the measurement of 12-month ECL, because the point at which default is considered to occur will determine the probability of that happening during the next 12 months.⁵ Regulators in particular were concerned that default may be interpreted solely as non-payment (payment default) instead of capturing indicators of loss expectations that accelerate eventual non-payment. A number of potential approaches have been suggested, including aligning it to the regulatory definition of default (ie 90 or 180 days).
33. Other respondents specifically welcomed the fact that default has not been defined because they consider the point of default to be different for different products and jurisdictions. These respondents only recommended providing additional guidance on what would constitute a default event within the context of the proposals.
34. The IASB considered how default is defined and applied in practice and what the importance of default in the context of the proposed ECL impairment model is. The IASB discussed four alternatives on how to respond to the concerns raised.
35. The IASB tentatively decided to require entities to apply a default definition that is consistent with its credit risk management practices and to emphasise that qualitative indicators of default should be considered when appropriate (such as for financial instruments that contain covenants). The IASB also tentatively decided to include a rebuttable presumption that default does not occur later than 90 days past due unless an entity has reasonable and supportable information to support a more lagging default criterion.

⁵ For example, if default is considered to occur when a loan is 360 days past due, no 12-month ECL would be recognised, because it is not possible for a default to occur in the next 12 months.

Loan commitments and financial guarantee contracts

Relevant agenda papers

- AP5A *Loan commitments and financial guarantee contracts* (November 2013)
- AP5A *Loan commitments and financial guarantee contracts* (December 2013)

36. The vast majority of respondents agreed that loan commitments should be within the scope of the proposed ECL model. However, many respondents recommended that ECL should be measured over the behavioural life of the instrument, rather than the contractual life as required by the 2013 ED. This was of particular concern for revolving credit products, eg credit cards, where in general the contractual cancellation period of these instruments could be one day, but credit is offered in practice for a longer period based on the entity's business practices.
37. The IASB considered that the contractual ability to cancel an undrawn commitment does not necessarily limit an entity's exposure to credit losses to the contractual notice period. The IASB therefore tentatively decided that for revolving credit facilities:
- (a) ECL, including ECL on the undrawn facility, should be estimated for the period over which an entity is exposed to credit risk and over which future drawdowns cannot be avoided;
 - (b) ECL on the undrawn facility should be discounted using the same effective interest rate, or an approximation thereof, used to discount the ECL on the drawn facility; and
 - (c) the provision for the ECL on the undrawn facility should be presented together with the loss allowance for ECL on the drawn balance if an entity cannot separately identify the ECL associated with the undrawn facility.

38. The IASB also considered whether these tentative decisions should be extended to other loan commitments and financial guarantees. As a result, the IASB tentatively:
- (a) confirmed the proposals in the 2013 ED that the maximum period over which ECL should be estimated for loan commitments and financial guarantee contracts, other than revolving credit facilities, is the contractual period over which the entity is committed to provide credit;
 - (b) decided that an entity should apply the same discount rate when estimating ECL on the drawn amount and the undrawn balance, unless the effective interest rate cannot be determined, in which case the discount rate should be determined as proposed in the 2013 ED; and
 - (c) decided that an entity should present the provision for the ECL on the undrawn balance together with the loss allowance for ECL on the drawn amount if the entity cannot separately identify the ECL associated with the undrawn balance.

Operational simplifications

Relevant agenda papers

- AP5B *Operational simplifications – more than 30 days past due rebuttable presumption and low credit risk* (October 2013)

More than 30 days past due rebuttable presumption

39. The majority of respondents considered the inclusion of delinquency as evidence of significant increases in credit risk to be helpful, particularly when entities do not have other borrower-specific information available to identify significant increases in credit risk. Furthermore, many respondents agreed that more than 30 days past due correlates with a significant increase in the risk of a default occurring in future periods. In order to improve the operability of the rebuttable presumption, some respondents proposed to further clarify how the rebuttable presumption interacts with the assessment of other borrower-specific information.

40. The IASB tentatively confirmed the rebuttable presumption and decided to clarify that:
- (a) the objective of the rebuttable presumption is to serve as a backstop or latest point at which to identify financial instruments that have experienced a significant increase in credit risk; and
 - (b) the application of the rebuttable presumption is to identify significant increases in credit risk *before* default or objective evidence of impairment.

Low credit risk

41. Respondents had mixed views on the exception that a financial instrument is not considered to have experienced significant increases in credit risk if it is deemed to have low credit risk (eg, is equivalent to investment grade) at the reporting date. Most—including insurers and non-financial entities that hold primarily debt investments—strongly supported it as a practical way to help them apply the model.
42. However, many of the respondents who agreed with the simplification also requested additional clarifications. For example:
- (a) whether an external rating would be required and the interaction between the external rating and the entity's own internal rating or assessment of the instrument's level of credit risk;
 - (b) clarification that deterioration just below 'investment grade' does not automatically result in the recognition of lifetime ECL; and
 - (c) clarification of the definition 'low credit risk'.
43. The IASB tentatively confirmed that an entity can assume that there has not been a significant increase in credit risk if a financial instrument is deemed to have low credit risk at the reporting date.

44. The IASB also tentatively decided to:
- (a) modify the proposed description of low credit risk to better reflect the characteristics, namely that:
 - (i) the instrument has a low risk of default;
 - (ii) the borrower is considered, in the near term, to have a strong capacity to meet its obligations; and
 - (iii) the lender expects for the longer term that adverse changes in economic and business conditions may, but not necessarily, reduce the ability of the borrower to fulfil its obligations;
 - (b) clarify that the low credit risk notion is not meant to be a bright-line trigger for the recognition of lifetime ECL. Instead, when an instrument is no longer deemed to be low credit risk, an entity should assess whether there has been a significant increase in credit risk since initial recognition; and
 - (c) clarify that financial instruments are not required to be externally rated; but that low credit risk equates to a risk consistent with the global credit rating definition of 'investment grade'.

Discount rate

Relevant agenda papers

- AP5C *Measurement of expected credit losses* (October 2013)

45. The 2013 ED did not specifically ask respondents to comment on the proposals relating to the discount rate when calculating the ECL. However, a number of respondents did address this point and most of them did not agree with the proposed range of discount rates (ie a rate between the risk-free rate and the effective interest rate) because they consider:
- (a) discounting using a risk-free rate to be inappropriate because it ignores the fact that there is credit risk associated with the financial instrument; and

- (b) differences in the amount of the allowance using different discount rates are material, in particular for high interest rate environments or high credit risk products, resulting in a lack of consistency and comparability among entities and jurisdictions.
46. The IASB considered the effective interest rate to be the conceptually correct rate to use and to be consistent with amortised cost measurement as a historical measure. Furthermore, discounting using the effective interest rate is consistent with the current requirements in IAS 39 and avoids the adjustment that arises when financial assets move to Stage 3, (ie when there is objective evidence of impairment) when a rate other than the effective interest rate has been used to discount the ECL up to that point.
47. The IASB tentatively decided to require that ECL should be discounted at the effective interest rate or an approximation thereof.

Disclosures

Relevant agenda papers

- AP5A *Presentation and Disclosure* (January 2014)

48. The majority of respondents agreed overall with the objective of the proposed disclosures. However, they were concerned that the disclosure requirements are excessive, burdensome, too prescriptive, complex and inoperable. Many requested that the disclosures should be more principle-based, less detailed, and linked more closely with management's credit risk practices.
49. Among the disclosure requirements that respondents disagreed with were:
- (a) the reconciliation of the gross carrying amount of financial assets;
 - (b) the tracking of modified assets for which the loss allowance has changed to 12-month ECL, over the remaining life of the assets;
 - (c) excessive and onerous information about collateral and the extent to which collateral reduces the severity of ECL; and

- (d) the disclosure of the gross carrying amount by credit risk rating grade when financial assets are managed on a delinquency basis.
50. Some respondents also suggested closer alignment to the framework proposed by the Enhanced Disclosure Task Force (EDTF) in its report *Enhancing the Risk Disclosures of Banks*.
51. The IASB discussed the feedback received on the proposed presentation and disclosure requirements, and considered whether any changes to the requirements should be made. The IASB tentatively decided to:
- (a) confirm the proposals to require a reconciliation between the opening balance to the closing balance of the loss allowance;
 - (b) retain the requirement to provide a reconciliation of the gross carrying amount of financial assets, subject to clarification that the objective of the reconciliation is to provide information only about the key drivers for changes in the gross carrying amount to the extent that it leads to changes in the loss allowance during the period;
 - (c) confirm the proposals for disclosures about collateral or other credit enhancements, subject to clarifications that:
 - (i) *qualitative* information should be disclosed about how collateral and other credit enhancements have been incorporated into the measurement of ECL on all financial instruments; and
 - (ii) *quantitative* information about the extent to which collateral or other credit enhancements affects the expected credit loss allowance (or provision) does not require providing information about the fair value of collateral.
 - (d) enhance the disclosure objectives by expanding them to emphasise that the information provided should enable users of the financial statements to understand:
 - (i) how an entity manages credit risk in the context of an expected credit loss impairment model;
 - (ii) the methods, assumptions and information used to estimate ECL;

- (iii) an entity's credit risk profile (the credit risk inherent in the financial instruments), including significant credit concentrations; and
 - (iv) changes, and the reasons for the changes, in the estimate of ECL during the period.
- (e) clarify that for modified financial assets only disclosure of the gross carrying amount of financial assets that were previously modified and for which the measurement of the loss allowance changes from lifetime to 12-month ECL during the period is required;
- (f) clarify that for disclosure of credit risk rating grades,
- (i) the use of an aging analysis for financial assets for which delinquency information is the only borrower-specific information available to assess significant increases in credit risk, is permitted; and
 - (ii) require credit risk disaggregation to be aligned with how credit risk is managed internally and that a consistent approach be applied over time, rather than requiring the use of at least three risk rating grades.

Transition

Relevant agenda papers

- AP5B *Transition and effect analysis* (December 2013)

52. The majority of respondents supported the proposed transition requirements. However, some requested practical ways to identify increases in credit risk between the date of initial recognition and the date of transition, because the initial credit risk at initial recognition may not be available retrospectively.
53. Some respondents were also concerned that the proposals in the 2013 ED would effectively result in all assets below 'investment grade' being measured at lifetime ECL because of the lack of data on transition, which they considered inappropriate. Respondents therefore requested that the IASB clarify that

delinquency and other relevant information can be considered for the identification of significant increases in credit risk at transition.

54. The IASB discussed the proposed transition requirements that an entity should apply on initial application of the proposed ECL model and tentatively decided to clarify that an entity could approximate the credit risk on initial recognition by considering the best available information that is available without undue cost or effort. That will be information that is:
- (a) reasonably available and does not require an entity to undertake an exhaustive search for information; and
 - (b) relevant in determining or approximating the credit risk at initial recognition.
55. The IASB tentatively confirmed that if an entity is not able to determine or approximate the credit risk on initial recognition, the entity should measure the loss allowance based on the credit quality at each reporting date until that financial instrument is derecognised. Furthermore, the IASB also tentatively decided that it would in drafting, through the use of application guidance or examples, describe how:
- (a) the rebuttable presumption for contractual payments that are more than 30 days past due, can be used if the entity identifies increases in credit risk according to days past due; and
 - (b) the credit risk at the date of transition could be compared to the initial maximum credit risk that is accepted for a particular portfolio (by product type and/or region).