IASB Update

From the International Accounting Standards Board

1 December 2010

Welcome to IASB Update

This IASB Update is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 1 December 2010. The topic discussed was:

- Financial Instruments: Impairment

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2010 are:

8 December
13 - 17 December

To see all Board meetings for 2010, click here.

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Podcast summaries

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Financial Instruments: Impairment

At this meeting, the IASB continued its redeliberations on phase II of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Board discussed the scope and characteristics of an impairment model that could be used as a potential basis for the forthcoming exposure draft (ED) on impairment of financial instruments. The purpose of the meeting was to give staff direction on how they should develop the impairment model further. Decisions about the content of the exposure draft will be made at a later meeting.

Scope

The Board discussed the possible objective and scope of the ED and indicated that the ED should focus on open portfolios. To set the context for the proposals, the Board also suggested that the ED should include an indication of the direction of the Board's thinking on the other topics in the previous ED *Financial Instruments: Amortised Cost and Impairment*.

The Board indicated that short-term trade receivables should be excluded from the scope of the ED and should instead be considered when the measurement of revenue (which is also the initial measurement of a trade receivable) is decided as part of its project on revenue recognition. After that decision, the Board would then consider which of the following impairment approaches would apply to short-term trade receivables:

i. any impairment model that the Board is currently developing for open portfolios in view of the ED;
ii. the proposals in the exposure draft *Financial Instruments: Amortised Cost and impairment* (November 2009);
iii. the IAS 39 incurred loss model; or
iv. any other model that the Board might subsequently develop (including any joint approach with the

FASB).

Impairment model for open portfolios

The Board continued its discussion on the development of the time-proportionate approach (based on lifetime expected losses) for the 'good book' combined with a 'bad book'. This is a possible basic impairment model for open portfolios for the purpose of the ED.

Allocation of lifetime expected losses under 'decoupling'

The Board considered that a straight-line approach for undiscounted expected losses is best suited to address operational concerns in allocating lifetime expected losses under 'decoupling' for the 'good book'.

Nevertheless, the Board also discussed other approaches (a straight line approach for discounted expected losses and an annuity approach). The Board considered that these allocation approaches are at least as appropriate and hence should also be available to entities that use a more sophisticated approach.

The Board also considered that to provide operational relief, entities should be allowed use a discount rate that would lie between (and include) the risk free rate and the effective interest rate (as calculated under IAS 39).

'Good book' / 'bad book'

The Board indicated that using a principle-based approach that is based on the internal credit risk management of an entity in defining the 'bad book' would be appropriate. The Board also considered that this approach would be enhanced by setting an objective for the 'bad book' and providing some principle-based guidance by using a notion of whether there is an indication that not all cash flows of an asset will be collected.

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