

Expert Advisory Panel

24-25 March 2010

Agenda

(Updated 24 March 2010)

1. Administrative matters
 - a. Introduction
 - b. Field testing
2. Feedback from the effective interest method subgroup on the IASB model
 - a. Issue 2 – EIM approximation outcomes (*Iain MacLachlan*)
 - b. Issue 2 – EIM approximations (*Rubén García Céspedes*)
 - c. Issue 1 – variable rate instruments (*Mark Rhys*)
 - d. Issue 4 – applying the ECF approach to specific types of instruments (eg instalment loans or revolving facilities) (*James Marker*)
 - e. Carrying amounts exceeding the initial measurement (‘negative provisions’) (*Mark Rhys*)
3. Feedback from the cash flow estimate subgroup on the IASB model
 - a. Update on the EAP proposition of approach (*Franciane Rays*)
 - b. Issue 1 – lack of historical data (*Urs Bluemli, Tom Canfarotta, Bill Hayward, Stephen Mackey and Tomoki Muto*)
 - c. Issue 5 – correlation in portfolios (*Stephen Mackey, Tomoki Muto and Franciane Rays*)
 - d. Issue 11 – estimates using data from secondary sources (*Katharina Bardenhewer*)
 - e. Issue 15 – loan commitment (*Urs Bluemli*)
4. Discussion of the proposed revision to the IASB’s working issues list
(Appendix A – refer to the items in strikethrough text)
5. Basel committee presentation

6. Proposal of single converged model (*Bill Hayward*)
7. FASB update and discussions (see spreadsheet for issues)
 - a. Discussion of open expected cash flows issues
 - i. FASB ECF issue # 7 – loss rate method and period 1 loss (*All*)
 - ii. FASB ECF issue #8 – definition and features of pools (*All*)
 - iii. FASB ECF issue #9 – open versus closed pools (*All*)
 - iv. FASB ECF issue #13 - excess cash on interest income accrual (*All*)

Appendix A (proposed revision 22 March 2010)

Following is a list of issues that have been identified in the course of the project regarding impairment of financial instruments, including the comments received on the Request for Information as well as other issues suggested by EAP candidates.

Estimating cash flows:

1. lack of historical data;
2. estimates for individual financial instruments;
3. estimates on a portfolio and individual level;
4. ~~implications of 'actual' losses;~~ *(thoroughly discussed)*
5. correlation in portfolios;
6. migration of instruments over time;
7. ~~penalty payments;~~
8. ~~recovery costs;~~
9. interaction with Basel II requirements;
10. implications of probability of pre-payment;
11. estimates using data from secondary sources;
12. simplifications for standard banks;
13. ~~macroeconomic outlook and management judgement;~~ *(thoroughly discussed)*
14. updating estimates (operationalise frequency of re-estimates);
15. loan restructures and loan commitments; and
16. ~~cash flows for floating rate notes where benchmark interest rate are not observable; and~~
17. estimates for non-rated instruments.

Effective interest method/allocation mechanism for initial estimate of expected credit losses:

1. variable rate instruments;
2. possible alternatives for the allocation of the initially expected losses;
3. determination of the initial expected spread;
4. applying the ECF approach to specific types of instruments (eg instalment loans or revolving facilities);
5. simplifications for standard banks and non-financial companies; and
6. transitional requirements.

Other:

- disclosure requirements and transparency.