

List of Submissions to *Discussion Paper 139 IASB Request for Information - Impairment of Financial Assets: Expected Cash Flow Approach (Expected Loss Model)*

- 1 Grant Thornton
- 2 HoTARAC



Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204,  
Collins Street  
WEST VICTORIA 8007  
By Email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Grant Thornton Australia Limited  
ABN 41 127 556 389

Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230

17 August 2009

T +61 2 8297 2400  
F +61 2 9299 4445  
E [info.nsw@grantthornton.com.au](mailto:info.nsw@grantthornton.com.au)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

Dear Kevin

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on AASB 139 Discussion Paper which is a re-badged copy of the International Accounting Standards Board's Request for Information on the Expected Loss Model.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with input from our clients, and discussions with key constituents. Due to timing we have not had the opportunity of getting input from Grant Thornton International, and this submission may not necessarily represent a final Grant Thornton International position.

Grant Thornton Australia supports the AASB in encouraging the IASB's work on the feasibility of an expected cash flow approach for the reasons as outlined in the IASB's Request for Information. Grant Thornton Australia is not aware of any significant concerns on the feasibility of adopting an expected cash flow approach provided that sufficient time is allowed for organisations to implement changes to their accounting systems.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED

A handwritten signature in black ink that reads "Keith Reilly". The signature is fluid and cursive, with a large loop at the end.

Keith Reilly  
National Head of Professional Standards

## Department of Treasury and Finance



The Treasury Building  
21 Murray Street, HOBART, Tas 7000  
GPO Box 147, HOBART, Tas 7001 Australia  
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755  
Email: [secretary@treasury.tas.gov.au](mailto:secretary@treasury.tas.gov.au) Web: [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins St West  
MELBOURNE Vic 8007

Dear Mr ~~Stevenson~~

*Kevin*

**IASB REQUEST FOR INFORMATION "EXPECTED LOSS MODEL" IMPAIRMENT OF  
FINANCIAL ASSETS: EXPECTED CASH FLOW APPROACH**

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide information to the International Accounting Standards Board on the application of the expected cash flow approach for the impairment of financial assets.

HoTARAC is an intergovernmental Committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

**Practical application issues**

HoTARAC members hold significant reservations about how an entity could obtain access to reliable information, which would generally be held by external parties, including the counter-parties themselves, on which to form a sound and unbiased basis to estimate future cash flows.

In addition, HoTARAC believes the prediction of cash flows that are dependent on another entity's circumstances is too subjective. In fact, if there is a subsequent reversal of an impairment, determined on an expected cash flows basis, this may very well reflect the limitations of that approach. For example, an impairment assessment may be followed by a subsequent reversal of that impairment. However, another person using the same information may conclude that an error of judgement was made in recognising the impairment. This may give rise to retrospective error corrections, in accordance with IAS 8, instead of treatment as a change in accounting estimate.

The expected cash flows approach clearly puts more onus on entities to ascertain information that may not be readily available to them, given the absence of an incurred loss threshold that would otherwise come to the entity's attention. In light of this, where there are legislative obligations on directors of corporations to ensure assets are not overstated, as there are in Australia, the expected cash flows approach may create a greater risk that directors breach such legislative obligations.

Further, HoTARAC believes that the amount of note disclosure required would need to increase, to explain the basis on which the measurement of financial assets is determined, given the broad range of information that may be used, and the subjective judgements involved. This would make an already complex disclosure even more complex to external users, arguably diminishing its overall usefulness to users.

### **Cost issues**

HoTARAC is of the view that the costs of implementation and application of the expected loss approach for the impairment of financial assets measured at amortised cost, as proposed, will be significant to its members. However, during the consultation period provided by the IASB, HoTARAC members have been unable to accurately estimate the dollar value of one-off and ongoing compliance costs.

While a comprehensive assessment has not been able to be completed to date, HoTARAC members have, as a minimum, hundreds of thousands of individual financial assets, many measured at amortised cost. These financial assets are managed through a variety of systems and people in different locations. The counter-parties to these instruments are diverse and include individuals, foreign governments, corporations, not-for-profit organisations, public sector entities etc. The substantial diversity in, and location of, counter-parties, coupled with the differing nature of the instruments themselves, would give rise to significant administrative overheads in actual costs and information gathering logistics. Rarely do these instruments fall neatly into existing market categories, and HoTARAC believe the same difficulty with information collection would apply to many private sector entries as well.

Due to these factors, the requirement to continuously re-estimate all expected cash flows, without first assessing if there is any objective evidence of impairment, will be onerous in terms of both time and cost. HoTARAC agrees with the list of anticipated costs to stakeholders, as set out on page 6 of the Staff Paper (agenda reference 5D) for the May 2009 IASB meeting. Compliance costs will be both one-off and ongoing in nature and would relate to issues such as:

- necessary changes to processes and systems, which may include development or redevelopment of costly predictive models;
- additional human resource costs;
- additional audit costs as a result of the high level of subjectivity involved in assessing financial assets; and
- additional information collection costs to provide information to assess expected losses. For example, costs of credit agency reports, and potential third party and counter-party user charges for access to necessary information to estimate future cash flows.

In light of this, if the IASB does pursue an expected cash flows approach for impairment, HoTARAC believes that a long lead time for the effective date of these requirements would be critical to implement the significant system and process changes demanded by such an approach.

HoTARAC members consider that a continuous requirement to re-estimate cash flows will be extremely time-consuming and impracticable. HoTARAC therefore recommends that, if the expected cash flows approach is progressed by the IASB, any requirements for re-estimation of cash flows be proposed only for the end of each reporting period.

HoTARAC supports a collective basis, rather than an individual basis, for determining impairments, wherever this would produce reliable results, as it is the most cost-effective approach. Where certain financial assets are more effectively assessed for impairment on an individual basis, the compliance costs of the expected cash flows approach would obviously be higher.

#### Questions in Request for Information

Regarding Question 1, HoTARAC considers the expected cash flows approach is defined clearly. However, HoTARAC members would prefer additional guidance on application of the approach to variable rate instruments, refer also to Question 4.

In respect of Question 4, HoTARAC supports the use of a catch-up adjustment for the impairment of variable rate instruments i.e. Approach B, as described in the Appendix to the Request for Information, for consistency with existing requirements.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely



D W Challen  
CHAIR

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE**

20 August 2009

Contact: Amy Huxley  
Phone: 6233 3411  
Our Ref: D/14418 AH/DC