Financial Instruments: Impairment

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
17 September (Joint meeting between IASB and FASB)	**(IASB) Agenda Paper 5A: Financial Instruments: Impairment: responsiveness of the general model** • discussed concerns that the impairment model, in the ED, did not capture significant increases in credit risk on a timely basis.	• to clarify that the objective of the model is to recognise lifetime expected credit losses 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. • to include Illustrative Examples to reflect the intention of the proposals.
	(IASB) Agenda Paper 5C: Financial Instruments: Impairment: Stage 1 Measurement objective • discussed the measurement objective of financial instruments where no significant increase in credit risk since initial recognition (Stage 1).	• to confirm that 12-month expected credit losses are the measurement objective for instruments in Stage 1.
	(IASB) Agenda Paper 5D: Financial Instruments: Impairment: definition of default • discussed the feedback received on the notion of default and whether a definition should be provided.	• to require a default definition to be applied consistently that is consistent with 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). • 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.
	(IASB) Agenda Paper 5E: Impairment: report on the fieldwork • reported on the fieldwork performed during the comment period as a follow up to the discussions held during the July 2013 joint IASB and FASB meeting.	• No decisions were requested.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
	(FASB) Agenda Paper 5F: Financial Instruments: Impairment: FASB Memo Number 239 Clarification of Expected Credit Losses • discussed an entity's estimate of expected credit losses under the FASB's proposed Accounting Standards Update *Financial Instruments—Credit Losses*.	[FASB only - to clarify that: • 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. • an entity should consider all contractual cash flows over the life of the related financial assets. When determining the contractual cash flows and the life of the related financial assets, an entity should consider the 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. • an estimate of expected credit losses should always reflect the risk of loss, even when that risk is remote. However, an entity would not be required to recognise a loss on a financial asset in which the risk of non-payment is greater than zero yet the amount of loss would be zero. • in addition to using a discounted cash flow model to estimate expected credit losses, an entity would not be prohibited from developing an estimate of expected credit losses using loss-rate methods, probability-of-default methods, or a provision matrix using loss factors.] The final guidance on expected credit losses should include Implementation Guidance to describe the factors that an entity should consider when adjusting historical loss experience for current conditions and reasonable and supportable forecasts.
31 October Meeting of the IASB	**Agenda Paper 5A: Assessing when to recognise lifetime expected credit losses** • discussed when lifetime expected credit losses shall be recognised.	• to confirm that lifetime expected credit losses shall be recognised when there is a significant increase in credit risk since initial recognition. • 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

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		origination credit risk. This would 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; c) the assessment of when to recognise lifetime expected credit losses should consider only changes in the risk of a default occurring, rather than changes in the amount of expected credit losses (or the credit loss given default (LGD)); d) an assessment based on the change in the risk of a default occurring in the next 12 months is permitted unless circumstances indicate that a lifetime assessment is necessary. Examples will be provided of when a 12-month assessment would not be appropriate and a lifetime assessment would be necessary; and e) a loss allowance measured at an amount equal to 12-month expected credit losses shall be re-established for financial instruments for which the criteria for the recognition of lifetime expected credit losses are no longer met.
	Agenda Paper 5B Operational simplifications • discussed the rebuttable presumption regarding the increase in credit risk associated with late contractual payments.	• confirmed the rebuttable presumption that there is a significant increase in credit risk when contractual payments are more than 30 days past due. • 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. b) The presumption is rebuttable. c) The application of the rebuttable presumption is to identify significant increases in credit risk before default or objective evidence of impairment.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		• an entity can assume that a financial instrument has not significantly increased in credit risk if it is low credit risk at the reporting date. • 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) to clarify that the low credit risk notion is not meant to be a bright-line trigger for the recognition of lifetime expected credit losses. Instead, when an instrument is no longer low credit risk, an entity would assess whether there has been a significant increase in credit risk to determine whether lifetime expected credit losses should be recognised; and c) to clarify that financial instruments are not required to be externally rated; but that low credit risk equates to a global credit rating definition of 'investment grade'.
	Agenda Paper 5C Measurement of expected credit losses • discussed he discounting and measurement of expected credit losses.	• to require that expected credit losses should be discounted at the effective interest rate or an approximation thereof. • to confirm that: a) The measurement of expected credit losses should incorporate the best available

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		information that is reasonably available, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. For periods beyond 'reasonable and supportable forecasts' an entity should consider how best to reflect its expectations by considering information at the reporting date about the current conditions, as well as forecasts of future events and economic conditions. b) Regulatory expected credit loss models may form a basis for expected credit loss calculations, but the measurement may need to be adjusted to meet the objectives of the proposed model. • to clarify the measurement of 12-month expected credit losses by incorporating the discussion in paragraph BC63 of the ED as part of the application guidance, namely that 12-month expected credit losses are a portion of the lifetime expected credit losses. Thus, 12-month expected credit losses are neither the lifetime expected credit losses that an entity will incur on financial instruments that it predicts will default in the next 12 months, nor the cash shortfalls that are predicted over the next 12 months. • to confirm the proposals that: a) the modification requirements apply to all modifications or renegotiations of contractual cash flows, regardless of the reason for the modification; b) the modification gain or loss should be recognised in profit or loss; and c) modified financial assets are subject to the same 'symmetrical' treatment (ie a modified asset can revert back to Stage 1, with a 12-month expected credit losses allowance) as other financial instruments. • to clarify the application guidance to emphasise that the credit risk on a financial asset will not automatically improve merely because the contractual cash flows have been modified.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
21 November Meeting of the IASB	**Agenda Paper 5A: Loan commitments and financial guarantee contracts** • discussed whether expected credit losses for revolving credit facilities should consider the contractual ability to cancel the undrawn commitment or whether that contractual ability does not necessarily limit an entity's exposure to credit losses to the contractual notice period.	• for revolving credit facilities: a) expected credit losses, including expected credit losses 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) expected credit losses on the undrawn facility should be discounted using the same effective interest rate, or an approximation thereof, used to discount the expected credit losses on the drawn facility. c) the provision for the expected credit losses on the undrawn facility should be presented together with the loss allowance for expected credit losses on the drawn facility if an entity cannot separately identify the expected credit losses associated with the undrawn facility. [On the basis of the above tentative decision, expected credit losses on other loan commitments and financial guarantee contracts will still be based on considering the contractual obligation to extend credit as proposed in the ED. However, the IASB requested the staff to perform further analysis to determine whether these tentative decisions should apply to a wider scope of loan commitments and financial guarantee contracts.]
	Agenda Paper 5B: Financial assets measured at FVOCI • discussed proposals in the ED for the treatment of expected credit losses for financial assets measured at FVOCI.	• to confirm the proposals in the ED for the treatment of expected credit losses for financial assets measured at FVOCI and not to introduce any relief from recognising 12-month expected credit losses. • to clarify in drafting that expected credit losses reflect management's expectations of credit losses. However, when considering the 'best available information' in estimating expected credit losses, management should consider observable market information about credit risk.
	Agenda Paper 5C: Interest revenue: Calculation and presentation • discussed the proposals in the ED for the calculation and presentation of interest revenue.	• to confirm the proposals in the ED for the calculation and presentation of interest revenue.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
	Agenda Paper 5D: Purchased or originated credit-impaired financial assets • discussed the proposals in the ED for the treatment of purchased or originated credit-impaired financial assets.	• to confirm the proposals in the ED for the treatment of purchased or originated credit-impaired financial assets. In addition, the IASB agreed to provide more guidance on originated credit-impaired financial assets.
	Agenda Paper 5E: Simplified approach for trade receivables and lease receivables • discussed the proposals in the ED for the simplified approach for trade receivables and lease receivables.	• to confirm the proposals in the ED for the simplified approach for trade receivables and lease receivables. The IASB also noted that the applicability of accounting policy choice for lease receivables to different populations of those receivables would be further considered when the Leases project is finalised.
	Agenda Paper 5F: Mandatory effective date of IFRS 9 • discussed the mandatory effective date of IFRS 9.	• it will only be able to determine the mandatory effective date after redeliberations on the impairment and classification and measurement requirements have been completed and the issue date of the final version of IFRS 9 is known. • However, to assist entities in their planning, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017.
12 December Meeting of the IASB	**Agenda Paper 5A: Loan commitments and financial guarantee contracts** • discussed whether the tentative decision that expected credit losses for revolving credit facilities should be estimated for the period over which an entity is exposed to credit risk and over which future drawdowns cannot be avoided, should be extended to other loan commitments and financial guarantees.	• to confirm the proposals in the ED that the maximum period over which expected credit losses 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; • an entity should apply the same discount rate when estimating expected credit losses 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 ED; and • an entity should present the provision for the expected credit losses on the undrawn balance together with the loss allowance for expected credit losses on the drawn amount if the entity cannot separately identify the expected credit losses associated with the undrawn balance.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
	Agenda Paper 5B: Transition and Effect Analysis • Discussed the proposed transition requirements that an entity should apply on initial application of the proposed expected credit loss model.	to confirm that: • the requirements should be applied retrospectively in accordance with IAS 8 Accounting Policies, *Changes in Accounting Estimates and Errors*; and • in order to assist entities to apply the proposals retrospectively, entities may apply the low credit risk exception (as proposed in paragraph C2(a) of the ED) to identify financial instruments for which the credit risks have not significantly increased. • 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. The best available information is information that is: o reasonably available and does not require the entity to undertake an exhaustive search for information; and o relevant in determining or approximating the credit risk at initial recognition. • to confirm 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. • to describe, in drafting, by the use of application guidance or by the use of examples, how: o an entity would consider the significant increases in credit risk on transition using the rebuttable presumption for contractual payments that are more than 30 days past due, if the entity identifies increases in credit risk according to days past due; and o an entity could assess whether there have been significant increases in credit by comparing the credit risk at the date of transition to the initial maximum credit risk that is accepted for a particular portfolio (by product type and/or region).

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
23 January (2014) Meeting of the IASB	**Agenda Paper 5A** • The IASB discussed the feedback received on the proposed presentation and disclosure requirements, and considered whether any changes to the requirements should be made.	<u>Reconciliation</u> • The IASB tentatively confirmed the proposals in the Exposure Draft to require a reconciliation between the opening balance to the closing balance of the loss allowance. • The IASB tentatively decided to retain the requirement to provide a reconciliation between the opening balance and closing balance of the gross carrying amount of financial assets. However, the IASB also tentatively decided to clarify 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 the changes relate to changes in the loss allowance during the period. <u>Collateral</u> The IASB tentatively confirmed the proposals in the Exposure Draft for disclosures about collateral or other credit enhancements, subject to clarifications that: a) qualitative information should be disclosed about how collateral and other credit enhancements have been incorporated into the measurement of expected credit losses on all financial instruments; and b) 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. <u>Other disclosures</u> The IASB tentatively confirmed the other disclosures proposed in the Exposure Draft subject to the following modifications and clarifications: *<u>Disclosure objectives</u>* Enhance the objectives by expanding them to emphasise that the information provided should

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		enable a user of the financial statements to understand: a) how an entity manages credit risk in the context of an expected credit loss impairment model; b) the methods, assumptions and information used to estimate expected credit losses; c) an entity's credit risk profile (the credit risk inherent in the financial instruments), including significant credit concentrations; and d) changes and the reasons for the changes, in the estimate of expected credit losses during the period. *Qualitative disclosures* a) no longer require the discount rate disclosures concerning the use of the effective interest rate or an approximation thereof included in paragraph 39 (c) of the Exposure Draft; b) include an explanation of the policy for the modification of financial instruments, including how an entity assesses that the credit risk of modified financial assets is no longer considered to be 'significantly increased' as compared to what it was at initial recognition; and c) following the September 2013 tentative decision to emphasise that macroeconomic information need to be considered when assessing whether there has been a significant increase in credit risk, an explanation of how such information has been incorporated in the estimates of expected credit losses also needs to be included.

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		Quantitative disclosures a) Modification disclosures: i. only require the 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 expected credit losses during the period. (paragraph 38(a) in the Exposure Draft); and ii. clarify the requirement in paragraph 38(b) of the Exposure Draft to refer to the deterioration rate (ie the percentage) of financial assets previously disclosed in accordance with paragraph 38(a) for which credit risk has subsequently increased significantly, resulting in the measurement of the loss allowance reverting to lifetime expected credit losses. b) Write-off policy disclosures: i. clarify that the term 'nominal amount' refers to the contractual amount outstanding; and iii. clarify that the requirement in paragraph 37 of the Exposure Draft to disclose the nominal amount of assets subject to enforcement activity only applies to financial assets that have been written-off during the period, while narrative information is provided about financial assets previously written-off but still subject to enforcement activity. c) Credit risk disaggregation disclosures: i. modify the requirement in paragraph 44 of the Exposure Draft to permit the use of an aging analysis for financial assets for which delinquency information is the only borrower-specific information

Date (2013)	Discussions	IASB Tentative Decisions [on the assumption of proceeding to finalise the ED].
		available to assess significant increases in credit risk; and ii. delete the requirement in paragraph 44 of the Exposure Draft that an entity should disaggregate its financial instruments across at least three credit risk rating grades to understand its exposure to credit risk, but instead require credit risk disaggregation to be aligned with how credit risk is managed internally and that a consistent approach be applied over time.