

AASB Exposure Draft

ED 210
March 2011

Financial Instruments: Impairment

(proposed amendments to AASB 7)

Comments to AASB by XX June 2011



Australian Government

**Australian Accounting
Standards Board**

Invitation to Comment

Comments on this Tier 2 Supplement to AASB Exposure Draft ED 210 *Financial Instruments: Impairment (proposed amendments to AASB 7)* are requested by XX June 2011. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this Tier 2 Supplement to AASB Exposure Draft

This Tier 2 Supplement to ED 210 is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Supplement are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@asb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@asb.gov.au

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Background

In January 2011, the IASB published Supplement to ED/2009/12 *Financial Instruments: Impairment*. The IASB Supplement contains proposals to revise the impairment loss requirements for financial assets measured at amortised cost managed on an open portfolio basis in IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139) and related disclosures in IFRS 7 *Financial Instruments: Disclosures* (AASB 7).

Consistent with its policy of adopting International Financial Reporting Standards (IFRS), in February 2011 the AASB published ED 210 *Financial Instruments: Impairment*, which incorporates the IASB Supplement. The AASB's response to the IASB Supplement will be available on the AASB website under [Work in Progress/Submissions from AASB](#).

This Exposure Draft sets out the disclosures proposed in ED 210 from which it is proposed entities applying Tier 2 disclosure requirements should be exempt. The IASB Supplement does not propose any amendments to the existing requirements in IFRS 7. Accordingly, this Exposure Draft does not deal with existing disclosure requirements in AASB 7. The proposals in this Exposure Draft should not be seen as any indication of AASB support or otherwise for the IASB's proposed disclosures in the IASB Supplement. That will be determined through the ED 210 due process.

AASB Specific Matters for Comment

The AASB's conclusions in relation to proposed Tier 2 disclosure requirements in this Exposure Draft have been reached after applying its usual approach to the analysis of the disclosures – comparison with disclosures set out in the IASB's *IFRS for SMEs* and application of the 'Tier 2 Disclosure Principles'. Those principles and the analysis of the proposed disclosure requirements in this Exposure Draft are available on the AASB website under [Work in Progress/Reduced Disclosure Requirements](#).

A summary of the main differences between ED 210 and Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* in terms of the recognition, measurement and presentation requirements are outlined in Appendix A to this Exposure Draft.

The AASB would particularly value comments on the following:

1. whether you agree with the AASB disclosure proposals regarding paragraphs Z6-Z15 and BZ1-BZ25 of ED 210 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures section below;
2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities;
3. whether, overall, these proposals would result in financial statements that would be useful to users;
4. whether these proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

ANALYSIS OF PROPOSED DISCLOSURES

The purpose of this Tier 2 Supplement to ED 210 *Financial Instruments: Impairment* is to seek comment on the disclosure requirements that should apply to Tier 2 entities.

Under the proposals in this Exposure Draft, Tier 2 entities would be exempt from making the proposed disclosure requirements in paragraphs Z6, Z7(c), Z8, Z11, Z12, Z14, Z15(b), Z15(c), BZ17, BZ18, BZ20, BZ21 and BZ25 of ED 210.

Proposed Reduced Disclosure Requirements

The proposed disclosure requirements in ED 210 are provided below. Entities applying Tier 2 requirements are proposed to be exempted from applying disclosure requirements shown as shaded text.

Classes of financial instruments and level of disclosure

Z6 When this appendix to the supplementary document requires disclosures by class of financial asset, an entity shall group financial assets into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments (including their grouping into portfolios). An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Allowance account

Z7 For financial assets measured at *amortised cost* an entity shall use an allowance account to account for credit losses. An entity shall disclose for each class of financial assets:

- separate reconciliations of changes during the period in the allowances determined in accordance with paragraph 2(a) and (b);
- if the amount determined in accordance with paragraph 2(a)(ii) is higher than that determined in accordance with paragraph 2(a)(i), the difference between those amounts; and
- a reconciliation of the nominal amounts of the financial assets for which the impairment allowance is determined in accordance with paragraph 2(b). That reconciliation shall include disclosure of the nominal amount of financial assets for which the impairment allowance is no longer determined in accordance with paragraph 2(b) but instead in accordance with paragraph 2(a) and where the change is a consequence of a modification of contractual term(s).

Z8 For financial assets for which the impairment allowance is determined in accordance with paragraph 2(a) an entity shall disclose in a tabular format for the current annual period and the previous four annual periods:

- the total nominal amount of the financial assets;
- the total amount of expected credit losses;
- the amount of the impairment allowance; and
- if applicable, the amount determined in accordance with paragraph Z7(b).

Expected credit loss estimates

Z9 An entity shall disclose information that explains the estimates and changes in estimates that are required to determine the impairment allowance.

Z10 An entity shall explain the inputs and assumptions used in determining the entire amount of expected credit losses and the amount of credit losses expected to occur within the foreseeable future (which shall be at least twelve months), including the time period used as the foreseeable future and how that determination was made (see paragraph 2(a)(ii)). For this purpose an entity shall disclose, separately for both amounts:

- the basis of inputs (e.g. internal historical information or rating reports) and the estimation technique;
- an explanation of the changes in estimates and the cause of the change (e.g. loss severity, change in portfolio composition); and
- if there has been a change in estimation technique, disclosure of that change and the reason for the change.

Z11 An entity shall disclose quantitative and qualitative analyses of significant positive or negative effects on impairment losses that are caused by a particular portfolio or geographical area.

Z12 An entity shall disclose information about how previous estimates of expected credit losses compare with actual outcomes:

- (a) when an entity performs back testing, it shall disclose a quantitative analysis that compares the actual outcomes and the previous estimate of expected credit losses. The analysis shall enable users to understand the difference between the actual outcomes and the previous estimate. For that purpose, a qualitative explanation may be necessary in some instances (e.g. when the actual outcome is higher than previously expected for mortgages because of a worse than expected development in house prices); and
- (b) when an entity does not perform back testing, it shall disclose a qualitative analysis of expected credit losses and the actual outcomes to enable users of its financial statements to understand the differences between the actual outcomes and the entity's previous estimate (e.g. when credit losses are more severe than previously expected for mortgages because of a worse than expected development in house prices).

Credit risk management

Z13 An entity shall disclose information about its internal *credit risk* management processes in order to enable users of its financial statements to gain a better understanding of the relationship between how financial assets are managed and how expected credit losses are estimated.

Z14 An entity shall disclose by credit risk rating grades:

- (a) the nominal amount of financial assets in a grade; and
- (b) other information including:
 - (i) the entire amount of expected credit losses for a grade; and
 - (ii) the amount of credit losses expected to occur within the foreseeable future (which shall be no less than twelve months after an entity's reporting date) (see paragraph 2(a)(ii)) for a grade.

The number of credit risk rating grades used for this disclosure shall be sufficient to enable users of the entity's financial statements to evaluate the extent of credit risk. The number of grades shall not exceed the number that the entity uses for internal credit risk management purposes. However, at a minimum the grades must allow differentiation between financial assets for which impairment allowances are determined in accordance with paragraph 2(a) and (b). Information about expected credit losses could include, for example, information about loss given default (amount expected to be impaired given a default), exposure at default and probability of default.

Z15 An entity shall also disclose:

- (a) a qualitative analysis that describes the criteria used to determine how financial assets are managed to distinguish between those for which impairment allowances are determined in accordance with paragraph 2(a) and (b), including the criteria that determine whether the entity applies paragraph 2(a) or paragraph 2(b);
- (b) when an entity uses internal credit rating grades, information about those rating grades. An entity could meet that requirement by providing, for example, the following information:
 - (i) a comparison with external ratings, if available;
 - (ii) a description of the credit rating grades used; and
 - (iii) if an entity uses a watchlist, a description and the criteria for including or no longer including financial assets in the watchlist;
- (c) how the internal credit rating grades are assigned to financial assets for which impairment allowances are determined in accordance with paragraph 2(a) and (b); and
- (d) when applicable, how the watchlist relates to the criteria that determine whether the entity applies paragraph 2(a) or paragraph 2(b).

Appendix B

Application guidance

BZ17 The disclosures required in this appendix to the supplementary document shall be either given in the financial statements or incorporated by cross-reference from the financial statements to other statements that are available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

BZ18 Paragraph Z6 requires an entity to group financial assets into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial assets. These classes are determined by the entity and are, thus, distinct from the measurement categories of financial assets (which determine how financial assets are measured and where changes in fair value are recognised).

BZ19 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this appendix to the supplementary document, how much emphasis it places on different aspects of the requirements, how it aggregates information to display the overall picture without combining information with different characteristics and whether users of financial statements need any additional information to evaluate the quantitative information disclosed. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. However, when an entity determines the level of aggregation or disaggregation, it shall consider the level of aggregation or disaggregation it uses for other disclosure requirements in IFRS 7. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

BZ20 As an example for a financial institution, financial assets might be grouped into classes based on the following characteristics:

- (a) government and central banks (further disaggregated into countries with AA ratings (or equivalent) and above, and countries with A ratings (or equivalent) and below);
- (b) financial institutions;
- (c) corporate;
- (d) retail (further disaggregated into secured by real estate collateral, qualifying revolving retail, retail loans to small and medium-sized entities and other);
- (e) securitised financial assets; and
- (f) below investment-grade.

BZ21 As an example for a non-financial institution, financial assets might be grouped into classes based on the following characteristics:

- (a) collateralised wholesale;
- (b) non-collateralised wholesale;
- (c) collateralised retail;
- (d) non-collateralised retail; and
- (e) credit card business.

BZ22 The disclosure requirements in paragraph Z7(a)-(c) shall be presented by asset class in tabular format:

Allowance for financial assets for which credit losses are recognised over a time period (paragraph 2(a)) [Column A]	Allowance for financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) [Column B]	Total allowance account [Column C]	Total profit or loss [Column D]	Nominal amount of the financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) [Column E]	
Opening balance	XX	Opening balance	XX	Opening balance	XX
				Add: originations/purchases	XX
Less: transfers to Column B	(XX)	Add: transfers from Column A	XX	Add: transfers from Column A	XX
Add: transfers from Column B	XX	Less: transfers to Column A	(XX)	Less: transfers to Column A	(XX)
Less: write-offs	(XX)	Less: write-offs	(XX)	Less: write-offs	(XX)
Less: reversals	(XX)	Less: reversals	(XX)	Less: reversals	XX
Less: disposals	(XX)	Less: disposals	(XX)	Less: disposals	(XX)
Additions / releases	YY	Add: additional credit losses	YY	Additions / releases and additional credit losses	(YY)*
Additional provision for minimum allowance amount (see paragraph 2(a)(ii) (if applicable))	ZZ	Additional provision for minimum allowance amount (see paragraph 2(a)(ii) (if applicable))	ZZ		(ZZ)**
Closing balance	XX	Closing balance	XX	Closing balance	XX

* Amount represents sum of corresponding amounts in columns A and B.
 ** Amount represents total of amounts in column D.

- BZ23** An entity shall include all write-offs in the reconciliation of changes in the allowance account (i.e. on a gross basis as both an addition to and a use of the allowance account). This applies even if a financial asset becomes impaired and is written off in the same period. Hence, direct write-offs against the contractual amount of financial assets without using an allowance account are prohibited.
- BZ24** When a financial asset is transferred between the two groups that are differentiated for the purpose of determining the impairment allowance in accordance with paragraph 2, the amount that is transferred between the impairment allowances for the two groups shall be determined in accordance with paragraph 2(a)(i).
- BZ25** When a financial asset is transferred between the two groups that are differentiated for the purpose of determining the impairment allowance in accordance with paragraph 2 because it is no longer appropriate to recognise expected losses immediately, an entity shall disclose as part of the reconciliation in paragraph Z7(c) the nominal amount of those financial assets transferred if the contractual terms were modified in relation to that transfer. A modification of contractual terms is related to the transfer if it is the cause for transferring the asset. However, sometimes it is not obvious that the modification of contractual terms was the cause because the transfer might result from multiple factors (e.g. an improving economic outlook for the sector in which the debtor operates, a rise in the value of collateral, raising of equity by the debtor, restructuring of the debtor's debt by other creditors or a takeover of the debtor by another party). In such circumstances the modification shall be considered related to the transfer. Conversely, if for example the contractual terms of a financial asset were modified several years before the transfer while the financial asset had a high credit grade, that modification of contractual terms would not be related to the transfer of the financial asset. Hence, an entity does not need to track and evaluate all modifications of contractual terms that were ever made from the date of entering into the contract.

Appendix A – Differences between ED 210 *Financial Instruments: Impairment* and Section 11 *Basic Financial Instruments of the IFRS for SMEs*

ED 210 deals with the expected loss impairment requirements. Section 11 of the *IFRS for SMEs* deals with the incurred loss impairment requirements.

The disclosures proposed in ED 210 and the disclosure requirements in Section 11 of the *IFRS for SMEs* have been compared in the Analysis of Disclosure Requirements Relating to Tier 2 Supplement to AASB Exposure Draft ED 210 *Financial Instruments: Impairment*, which is available on the AASB website under [Work in Progress/Reduced Disclosure Requirements](#).

Main Differences in Recognition, Measurement and Presentation Requirements

The proposals in ED 210 differ from the incurred loss impairment requirements in Section 11 of the *IFRS for SMEs*, such that the proposals:

- (a) require impairments of financial assets measured at amortised cost and managed on an open portfolio basis to be determined based on expected credit losses using past, present and forecasted information;
- (b) require financial assets measured at amortised cost and managed on an open portfolio basis to be placed into two groups, based on their credit characteristics, for the purposes of determining the impairment allowance:
 - (i) for one group, the entire amount of expected credit losses would be recognised in the impairment allowance (this group is commonly referred to as the ‘bad book’); and
 - (ii) for the other group, expected credit losses would be recognised on a portfolio basis over a time period at the higher of the time-proportional expected credit losses and the credit losses expected to occur within the foreseeable future period of at least twelve months (this group is commonly referred to as the ‘good book’);
- (c) require the allocation between the ‘good book’ and ‘bad book’ groups and the transfers of financial assets between groups to be determined in accordance with an entity’s internal credit risk management; and
- (d) require the minimum impairment allowance amount for:
 - (i) the ‘bad book’ to be always equal to the lifetime expected credit losses; and
 - (ii) the ‘good book’ to never be less than the credit losses that are expected to occur within the foreseeable future of at least twelve months from the entity’s reporting date.

**Analysis of Disclosure Requirements
Proposed in AASB Exposure Draft
ED 210 *Financial Instruments:*
Impairment with a View to
Determining Corresponding Tier 2
Disclosure Requirements**

Analysis of Disclosure Requirements

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>Disclosures Classes of financial instruments and level of disclosure Z6 When this appendix to the supplementary document requires disclosures by class of financial asset, an entity shall group financial assets into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments (including their grouping into portfolios). An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.</p>		<p>Paragraph Z6 has no equivalent in the <i>IFRS for SMEs</i> and does not relate to a recognition and measurement difference. Based on paragraph 3 of ‘Tier 2 Disclosure Principles’, paragraph Z6 should be excluded from the Tier 2 disclosure requirements.</p>
<p>Allowance account Z7 For financial assets measured at <i>amortised cost</i> an entity shall use an allowance account to account for credit losses. An entity shall disclose for each class of financial assets: (a) separate reconciliations of changes during the period in the allowances determined in accordance with paragraph 2(a) and (b); (b) if the amount determined in accordance with paragraph 2(a)(ii) is higher than that determined in accordance with paragraph 2(a)(i), the difference between those amounts; and (c) a reconciliation of the nominal amounts of the financial assets for which the impairment allowance is determined in accordance with paragraph 2(b). That reconciliation shall include disclosure of the nominal amount of financial assets for which the impairment allowance is no longer determined in accordance with paragraph 2(b) but instead in accordance with paragraph 2(a) and where the change is a consequence of a modification of contractual term(s).</p>		<p>Paragraph Z7 has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not require the use of an allowance account.</p> <p>Based on paragraphs 6(c) and 6(e) of ‘Tier 2 Disclosure Principles’, in relation to measurement uncertainties and disaggregated amounts, sub-paragraphs Z7(a) and Z7(b) should be retained in the Tier 2 disclosure requirements.</p> <p>However, based on paragraph 5 of ‘Tier 2 Disclosure Principles’, in relation to cost-benefit, sub-paragraph Z7(c) should be excluded from the Tier 2 disclosure requirements.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>Z8 For financial assets for which the impairment allowance is determined in accordance with paragraph 2(a) an entity shall disclose in a tabular format for the current annual period and the previous four annual periods:</p> <ul style="list-style-type: none"> (a) the total nominal amount of the financial assets; (b) the total amount of expected credit losses; (c) the amount of the impairment allowance; and (d) if applicable, the amount determined in accordance with paragraph Z7(b). 		<p>Paragraph Z8 has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not require impairment assessments based on expected losses. However, based on paragraph 5 of ‘Tier 2 Disclosure Principles’, in relation to cost-benefit, paragraph Z8 should be excluded from the Tier 2 disclosure requirements.</p>
<p>Expected credit loss estimates</p> <p>Z9 An entity shall disclose information that explains the estimates and changes in estimates that are required to determine the impairment allowance.</p>		<p>Paragraph Z9 requires information that is dealt with at a more general level in paragraphs 122 and 125 of AASB 101 <i>Presentation of Financial Statements</i> (equivalent to paragraphs 8.6 and 8.7 of the <i>IFRS for SMEs</i>), which were retained in the Tier 2 disclosure requirements. Based on paragraph 6(c) of ‘Tier 2 Disclosure Principles’, in relation to measurement uncertainties, paragraph Z9 should be retained in Tier 2.</p>
<p>Z10 An entity shall explain the inputs and assumptions used in determining the entire amount of expected credit losses and the amount of credit losses expected to occur within the foreseeable future (which shall be at least twelve months), including the time period used as the foreseeable future and how that determination was made (see paragraph 2(a)(ii)). For this purpose an entity shall disclose, separately for both amounts:</p> <ul style="list-style-type: none"> (a) the basis of inputs (eg internal historical information or rating reports) and the estimation technique; (b) an explanation of the changes in estimates and the cause of the change (eg loss severity, change in portfolio composition); and (c) if there has been a change in estimation technique, disclosure of that change and the reason for the change. 		<p>Paragraph Z10 requires information that is dealt with at a more general level in paragraphs 122 and 125 of AASB 101 <i>Presentation of Financial Statements</i> (equivalent to paragraphs 8.6 and 8.7 of the <i>IFRS for SMEs</i>), which were retained in the Tier 2 disclosure requirements. Based on paragraph 6(c) of ‘Tier 2 Disclosure Principles’, in relation to measurement uncertainties, paragraph Z10 should be retained in Tier 2.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>Z11 An entity shall disclose quantitative and qualitative analyses of significant positive or negative effects on impairment losses that are caused by a particular portfolio or geographical area.</p>		<p>Paragraph Z11 has no equivalent in the <i>IFRS for SMEs</i> and does not relate to a recognition and measurement difference. Based on paragraph 3 of ‘Tier 2 Disclosure Principles’, paragraph Z11 should be excluded from the Tier 2 disclosure requirements.</p>
<p>Z12 An entity shall disclose information about how previous estimates of expected credit losses compare with actual outcomes:</p> <ul style="list-style-type: none"> (a) when an entity performs back testing, it shall disclose a quantitative analysis that compares the actual outcomes and the previous estimate of expected credit losses. The analysis shall enable users to understand the difference between the actual outcomes and the previous estimate. For that purpose, a qualitative explanation may be necessary in some instances (eg when the actual outcome is higher than previously expected for mortgages because of a worse than expected development in house prices); and (b) when an entity does not perform back testing, it shall disclose a qualitative analysis of expected credit losses and the actual outcomes to enable users of its financial statements to understand the differences between the actual outcomes and the entity’s previous estimate (eg when credit losses are more severe than previously expected for mortgages because of a worse than expected development in house prices). 		<p>Paragraph Z12 has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not require impairment assessments based on expected losses. However, based on paragraph 5 of ‘Tier 2 Disclosure Principles’, in relation to cost-benefit, paragraph Z12 should be excluded from the Tier 2 disclosure requirements.</p>
<p>Credit risk management Z13 An entity shall disclose information about its internal credit risk management processes in order to enable users of its financial statements to gain a better understanding of the relationship between how financial assets are managed and how expected credit losses are estimated.</p>		<p>Paragraph Z13 is the overall principle for the disclosures relating to an entity’s expected credit loss assessment based on its internal credit risk management, and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> impairment assessment is based on an incurred loss model.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
		Paragraphs Z15(a) and Z15(d) (below) supporting paragraph Z13 are proposed to be retained in the Tier 2 disclosure requirements. Accordingly, based on paragraphs 5, 6(c) and 6(f) of ‘Tier 2 Disclosure Principles’, in relation to user needs, measurement uncertainties, and transactions and other events and conditions encountered by such entities, paragraph Z13 should be retained in the Tier 2 disclosure requirements.
<p>Z14 An entity shall disclose by credit risk rating grades:</p> <ul style="list-style-type: none"> (a) the nominal amount of financial assets in a grade; and (b) other information including: <ul style="list-style-type: none"> (i) the entire amount of expected credit losses for a grade; and (ii) the amount of credit losses expected to occur within the foreseeable future (which shall be no less than twelve months after an entity’s reporting date) (see paragraph 2(a)(ii)) for a grade. <p>The number of credit risk rating grades used for this disclosure shall be sufficient to enable users of the entity’s financial statements to evaluate the extent of credit risk. The number of grades shall not exceed the number that the entity uses for internal credit risk management purposes. However, at a minimum the grades must allow differentiation between financial assets for which impairment allowances are determined in accordance with paragraph 2(a) and (b). Information about expected credit losses could include, for example, information about loss given default (amount expected to be impaired given a default), exposure at default and probability of default.</p>		Paragraph Z14 has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not require impairment assessments based on expected losses. However, based on paragraph 5 of ‘Tier 2 Disclosure Principles’, in relation to cost-benefit, paragraph Z14 should be excluded from the Tier 2 disclosure requirements.
<p>Z15 An entity shall also disclose:</p> <ul style="list-style-type: none"> (a) a qualitative analysis that describes the criteria used to determine how financial assets are managed to 		Paragraph Z15 has no equivalent in the <i>IFRS for SMEs</i> and is regarded as relating to a recognition and measurement difference because the <i>IFRS for SMEs</i> does not require

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>distinguish between those for which impairment allowances are determined in accordance with paragraph 2(a) and (b), including the criteria that determine whether the entity applies paragraph 2(a) or paragraph 2(b);</p> <p>(b) when an entity uses internal credit rating grades, information about those rating grades. An entity could meet that requirement by providing, for example, the following information:</p> <ul style="list-style-type: none"> (i) a comparison with external ratings, if available; (ii) a description of the credit rating grades used; and (iii) if an entity uses a watchlist, a description and the criteria for including or no longer including financial assets in the watchlist; <p>(c) how the internal credit rating grades are assigned to financial assets for which impairment allowances are determined in accordance with paragraph 2(a) and (b); and</p> <p>(d) when applicable, how the watchlist relates to the criteria that determine whether the entity applies paragraph 2(a) or paragraph 2(b).</p>		<p>impairment assessments based on expected losses.</p> <p>Based on paragraphs 5, 6(c), and 6(f) of ‘Tier 2 Disclosure Principles’, in relation to user needs, measurement uncertainties, and transactions and other events and conditions encountered by such entities, sub-paragraphs Z15(a) and Z15(d) should be retained in the Tier 2 disclosure requirements.</p> <p>However, based on paragraph 5 of ‘Tier 2 Disclosure Principles’, in relation to cost-benefit, sub-paragraphs Z15(b) and Z15(c) should be excluded from the Tier 2 disclosure requirements.</p>
<p>Appendix B Application guidance</p> <p>Disclosure BZ17 The disclosures required in this appendix to the supplementary document shall be either given in the financial statements or incorporated by cross-reference from the financial statements to other statements that are available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.</p>		<p>Paragraph BZ17 has no equivalent in the <i>IFRS for SMEs</i> and does not relate to a recognition and measurement difference. Based on paragraph 3 of ‘Tier 2 Disclosure Principles’, paragraph BZ17 should be excluded from the Tier 2 disclosure requirements.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>BZ18 Paragraph Z6 requires an entity to group financial assets into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial assets. These classes are determined by the entity and are, thus, distinct from the measurement categories of financial assets (which determine how financial assets are measured and where changes in fair value are recognised).</p>		<p>Paragraph BZ18 has no equivalent in the <i>IFRS for SMEs</i> and is in the nature of guidance for the application of paragraph Z6, which is proposed to be excluded from the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ18 should also be excluded from the Tier 2 disclosure requirements.</p>
<p>BZ19 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this appendix to the supplementary document, how much emphasis it places on different aspects of the requirements, how it aggregates information to display the overall picture without combining information with different characteristics and whether users of financial statements need any additional information to evaluate the quantitative information disclosed. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. However, when an entity determines the level of aggregation or disaggregation, it shall consider the level of aggregation or disaggregation it uses for other disclosure requirements in IFRS 7. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.</p>		<p>Paragraph BZ19 has no equivalent in the <i>IFRS for SMEs</i> and is in the nature of guidance for the application of paragraph Z7(a), Z7(b), Z9, Z10, Z13, Z15(a), Z15(d), BZ22, BZ23 and BZ24, which are proposed to be retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ19 should also be retained in the Tier 2 disclosure requirements.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>BZ20 As an example for a financial institution, financial assets might be grouped into classes based on the following characteristics:</p> <ul style="list-style-type: none"> (a) government and central banks (further disaggregated into countries with AA ratings (or equivalent) and above, and countries with A ratings (or equivalent) and below); (b) financial institutions; (c) corporate; (d) retail (further disaggregated into secured by real estate collateral, qualifying revolving retail, retail loans to small and medium-sized entities and other); (e) securitised financial assets; and (f) below investment-grade. 		<p>Paragraph BZ20 has no equivalent in the <i>IFRS for SMEs</i> and is in the nature of guidance for the application of paragraph Z6, which is proposed to be excluded from the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ20 should also be excluded from the Tier 2 disclosure requirements.</p>
<p>BZ21 As an example for a non-financial institution, financial assets might be grouped into classes based on the following characteristics:</p> <ul style="list-style-type: none"> (a) collateralised wholesale; (b) non-collateralised wholesale; (c) collateralised retail; (d) non-collateralised retail; and (e) credit card business. 		<p>Paragraph BZ21 has no equivalent in the <i>IFRS for SMEs</i> and is in the nature of guidance for the application of paragraph Z6, which is proposed to be excluded from the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ21 should also be excluded from the Tier 2 disclosure requirements.</p>

Disclosures proposed in ED 210					Disclosure Requirements in IFRS for SMEs, Sections 11 and 12		Comments
BZ22 The disclosure requirements in paragraph Z7(a)–(c) shall be presented by asset class in tabular format:							Paragraph BZ22 has no equivalent in the <i>IFRS for SMEs</i> but is in the nature of guidance for the application of paragraph Z7.
Allowance for financial assets for which credit losses are recognised over a time period (paragraph 2(a)) [Column A]	Allowance for financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) [Column B]	Total allowance account [Column C]	Total profit or loss [Column D]	Nominal amount of the financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) [Column E]			
Opening balance XX	Opening balance XX	Opening balance XX		Opening balance XX			
				Add: purchases XX			
Less: transfers to Column B (XX)	Add: transfers from Column A XX			Add: transfers from Column A XX			
Add: transfers from Column B XX	Less: transfers to Column A (XX)			Less: transfers to Column A (XX)			
Less: write-offs (XX)	Less: write-offs (XX)	Less: write-offs (XX)		Less: write-offs (XX)			
Less: reversals (XX)	Less: reversals (XX)	Less: reversals (XX)					
Less: disposals (XX)	Less: disposals (XX)	Less: disposals (XX)		Less: disposals (XX)			
Additions / releases XX	Add: additional credit losses XX	Additions / releases and additional credit losses YY	(YY)*				
Additional provision for minimum allowance amount (see paragraph 2(a)(ii) (if applicable) XX		Additional provision for minimum allowance amount (see paragraph 2(a)(ii) (if applicable) ZZ	(ZZ)*				
Closing balance XX	Closing balance XX	Closing balance XX	(YZ)**	Closing balance XX			
* Amount represents sum of corresponding amounts in columns A and B.							
** Amount represents total of amounts in column D.							
							Columns A, B, C and D of paragraph BZ22 are guidance to sub-paragraphs, Z7(a) and Z7(b), which are proposed to be retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, columns A, B, C and D of paragraph BZ22 should also be retained in the Tier 2 disclosure requirements.
							However, column E of paragraph BZ22 is guidance to sub-paragraph Z7(c), which is proposed to be excluded from the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, column E of paragraph BZ22 should also be excluded from the Tier 2 disclosure requirements.

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>BZ23 An entity shall include all write-offs in the reconciliation of changes in the allowance account (ie on a gross basis as both an addition to and a use of the allowance account). This applies even if a financial asset becomes impaired and is written off in the same period. Hence, direct write-offs against the contractual amount of financial assets without using an allowance account are prohibited.</p>		<p>Paragraph BZ23 has no equivalent in the <i>IFRS for SMEs</i> but is in the nature of guidance for the application of subparagraphs Z7(a) and Z7(b), which are proposed to be retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ23 should also be retained in the Tier 2 disclosure requirements.</p>
<p>BZ24 When a financial asset is transferred between the two groups that are differentiated for the purpose of determining the impairment allowance in accordance with paragraph 2, the amount that is transferred between the impairment allowances for the two groups shall be determined in accordance with paragraph 2(a)(i).</p>		<p>Paragraph BZ24 has no equivalent in the <i>IFRS for SMEs</i> but is in the nature of guidance for the application of subparagraphs Z7(a) and Z7(b), which are proposed to be retained in the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ24 should also be retained in the Tier 2 disclosure requirements.</p>
<p>BZ25 When a financial asset is transferred between the two groups that are differentiated for the purpose of determining the impairment allowance in accordance with paragraph 2 because it is no longer appropriate to recognise expected losses immediately, an entity shall disclose as part of the reconciliation in paragraph Z7(c) the nominal amount of those financial assets transferred if the contractual terms were modified in relation to that transfer. A modification of contractual terms is related to the transfer if it is the cause for transferring the asset. However, sometimes it is not obvious that the modification of contractual terms was the cause because the transfer might result from multiple factors (eg an improving economic outlook for the sector in which the debtor operates, a rise in the value of collateral, raising of equity by the debtor, restructuring of the debtor’s debt by other creditors or a takeover of the debtor by another party). In such circumstances the modification shall be considered related to the transfer. Conversely, if for example the contractual terms</p>		<p>Paragraph BZ25 has no equivalent in the <i>IFRS for SMEs</i> and is in the nature of guidance for the application of subparagraph Z7(c), which is proposed to be excluded from the Tier 2 disclosure requirements. Based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ25 should also be excluded from the Tier 2 disclosure requirements.</p>

Disclosures proposed in ED 210	Disclosure Requirements in <i>IFRS for SMEs</i> , Sections 11 and 12	Comments
<p>of a financial asset were modified several years before the transfer while the financial asset had a high credit grade, that modification of contractual terms would not be related to the transfer of the financial asset. Hence, an entity does not need to track and evaluate all modifications of contractual terms that were ever made from the date of entering into the contract.</p>		

Pre-ballot