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| To: | AASB members | Date: | 1 March 2011 |
| From: | Christina Ng | Agenda Item: | 8.3 |
| Subject: | Sweep Issues Relating to ED 210 Tier 2 Supplement | File: | |

Action

Reconsider whether to propose for inclusion or exclusion certain ED 210 *Financial Instruments: Impairment* proposed disclosures that are the subject of divergent Board and staff member views.

Background

1. This paper sets out some of the disclosures proposed in ED 210 *Financial Instruments: Impairment* on which Board and staff members have divergent views regarding their retention in, or exclusion from, Tier 2 requirements.
2. Schedule 1 below shows the relevant proposed disclosure requirements, their corresponding *IFRS for SMEs* disclosure requirements, staff initial comments on those proposals after reflecting on the views of Subcommittee members (Agenda paper 8.3.2 or Pre-ballot draft) and subsequent staff comments after considering responses from all Board members. Shaded text in the first column 'Proposed Disclosure' of Schedule 1 is recommended for exclusion from the Tier 2 disclosure requirements.
3. Staff seek clarification from members as to whether the proposed paragraphs provided in Schedule 1 below, should be retained or excluded from the Tier 2 disclosure requirements.

Attachments

Agenda paper 8.3.1 – Tier 2 Disclosure Principles

Agenda paper 8.3.2 – Pre-ballot draft Tier 2 Supplement to ED 210 and Analysis

SCHEDULE 1: Proposed disclosure requirements relating to ED 210

| Proposed Disclosure | Equivalent Text in <i>IFRS for SMEs</i> | Initial Staff Comments |
|--|---|--|
| <p>Allowance account</p> <p>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:</p> <p>(a) separate reconciliations of changes during the period in the allowances determined in accordance with paragraph 2(a) and (b);</p> <p>(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</p> <p>(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, 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, paragraph Z7(c) should be excluded from the Tier 2 disclosure requirements.</p> |
| <p>Board Member Comments: The board had previously decided broadly that reconciliation disclosures should be excluded from the Tier 2 disclosure requirements. With regards to ED 210, four members disagreed with initial staff conclusion to retain paragraphs Z7(a) and Z7(b) as they do not consider there to be a recognition and measurement difference between ED 210 and <i>IFRS for SMEs</i>. In addition, two members noted that the <i>IFRS for SMEs</i> only required disclosure on the accounting policy and the measurement basis used for financial instruments (paragraph 11.40 of <i>IFRS for SMEs</i>), and the impairment loss amount for each class of financial assets [paragraph 11.48(c)]. Accordingly, those members consider that only those equivalent disclosures to paragraphs 11.40 and 11.48(c) of the <i>IFRS for SMEs</i> should be retained.</p> | | |
| <p>Subsequent Staff Comments: Staff noted that ED 210 and the <i>IFRS for SMEs</i> do not draw on the same impairment models—ED 210 proposes an expected loss model and the <i>IFRS for SMEs</i> requires an incurred loss model. The timing of impairment loss recognition and the measurement basis between the impairment models under ED 210 and the <i>IFRS for SMEs</i> are different. In addition, ED 210 proposes that movements such as the time-proportionate loss amounts, any additional loss estimable in the foreseeable future, and transfers of loss amounts between the good and bad book portfolios would be required in the reconciliation of the allowance account. As a result, staff consider a reconciliation of the allowance account when provided in the context of ED 210 would be regarded as relating to a recognition and measurement difference. Staff also considered paragraph BCZ94 of ED 210, which states that “the amounts in the statement of financial position and the statement of comprehensive income, in isolation, are not sufficient to allow users of financial statements to evaluate the effects of the credit risk of financial instruments”. In addition, staff consider that the proposed information in paragraphs Z7(a) and Z7(b) in ED 210 provides useful information and transparency about the timing of loss recognition and measurement basis of the impairment model in ED 210. Accordingly, based on paragraphs 6(c) and 6(e) of ‘Tier 2 Disclosure Principles’, in relation to measurement uncertainties and disaggregated amounts, paragraphs Z7(a) and Z7(b) should be retained in the Tier 2 disclosure requirements.</p> | | |

SCHEDULE 1: Proposed disclosure requirements relating to ED 210

| Proposed Disclosure | Equivalent Text in <i>IFRS for SMEs</i> | Initial Staff Comments | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|------------------------------------|---|---|-----------------|----|-----------------|----|-----------------|----|--|--|--|--|-----------------------------|----|-----------------------------|------|------------------------------|----|------------------------------|----|------------------------------|----|-----------------------------|------|-----------------------------|------|------------------|------|------------------|----|------------------|------|-----------------|------|-----------------|----|--|--|-----------------|------|-----------------|----|-----------------|------|----------------------|----|-------------------------------|----|--|--|--|----|--|----|--|--|-----------------|----|-----------------|----|-----------------|----|--|--|
| <p>BZ22 The disclosure requirements in paragraph Z7(a)–(c) shall be presented by asset class in tabular format:</p> <table border="1" data-bbox="89 263 716 981"> <thead> <tr> <th>Allowance for financial assets for which credit losses are recognised over a time period (paragraph 2(a)) [Column A]</th> <th>Allowance for financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) (Column B)</th> <th>Total allowance account [Column C]</th> <th>Total profit or loss [Column D]</th> <th>Nominal amount of the financial assets for which the entire amount of credit losses is recognised (paragraph 2(b)) [Column E]</th> </tr> </thead> <tbody> <tr> <td>Opening balance</td> <td>XX</td> <td>Opening balance</td> <td>XX</td> <td>Opening balance</td> <td>XX</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Add: originations/purchases</td> <td>XX</td> </tr> <tr> <td>Less: transfers to Column B</td> <td>(XX)</td> <td>Add: transfers from Column A</td> <td>XX</td> <td>Add: transfers from Column A</td> <td>XX</td> </tr> <tr> <td>Add: transfers from Column B</td> <td>XX</td> <td>Less: transfers to Column A</td> <td>(XX)</td> <td>Less: transfers to Column A</td> <td>(XX)</td> </tr> <tr> <td>Less: write-offs</td> <td>(XX)</td> <td>Less: write-offs</td> <td>XX</td> <td>Less: write-offs</td> <td>(XX)</td> </tr> <tr> <td>Less: reversals</td> <td>(XX)</td> <td>Less: reversals</td> <td>XX</td> <td></td> <td></td> </tr> <tr> <td>Less: disposals</td> <td>(XX)</td> <td>Less: disposals</td> <td>XX</td> <td>Less: disposals</td> <td>(XX)</td> </tr> <tr> <td>Additions / releases</td> <td>YY</td> <td>Add: additional credit losses</td> <td>YY</td> <td></td> <td></td> </tr> <tr> <td>Additional provision for minimum allowance amount (see paragraph 2(a)(ii)) (if applicable)</td> <td>ZZ</td> <td>Additional provision for minimum allowance amount (see paragraph 2(a)(ii)) (if applicable)</td> <td>ZZ</td> <td></td> <td></td> </tr> <tr> <td>Closing balance</td> <td>XX</td> <td>Closing balance</td> <td>XX</td> <td>Closing balance</td> <td>XX</td> </tr> </tbody> </table> <p>* Amount represents sum of corresponding amounts in columns A and B. ** Amount represents total of amounts in column D.</p> | 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: disposals | (XX) | Less: disposals | XX | Less: disposals | (XX) | Additions / releases | YY | Add: 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 | | | Closing balance | XX | Closing balance | XX | Closing balance | XX | | <p>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.</p> <p>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.</p> <p>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.</p> |
| 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: disposals | (XX) | Less: disposals | XX | Less: disposals | (XX) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additions / releases | YY | Add: 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Closing balance | XX | Closing balance | XX | Closing balance | XX | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Board Member Comments: Two members disagree with the initial staff comments that paragraph BZ22 relates to guidance on the application of paragraph Z7. Those members consider paragraph BZ22 to be a requirement to disclose information in paragraph Z7 in a tabular format.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Subsequent Staff Comments: Staff agree the tabular format that paragraph BZ22 requires should be excluded from the Tier 2 disclosure requirements. Accordingly, based on paragraph 7 of ‘Tier 2 Disclosure Principles’, paragraph BZ22 should be excluded from the Tier 2 disclosure requirements.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |