Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	10 October 2011
From:	**Christina Ng**	**Agenda Item:**	10.2
Subject:	**Financial Instruments Impairment – project update**	**File:**	

Action

Receive an update on recent developments in the IASB and the FASB's joint project Financial Instruments Impairment.

Attachment

Agenda paper 10.2.1 – Slides on Financial Instruments Impairment Update (to be provided at the October 2011 AASB meeting)

Background

The IASB and the FASB have been deliberating revisions for the proposed financial instruments impairment model with the objective of issuing a converged impairment approach.

At the July 2011 AASB meeting, AASB staff provided an update on the project, including recent tentative decisions made by the IASB and the FASB. As a refresher, one of the decisions made by the Boards was to develop a three-bucket impairment model that is based on the general pattern of deterioration of credit quality.

* The first bucket contains loans that are 'good'. Expected losses for the next 12 or 24 months from the reporting date are recognised immediately in profit or loss;

* The second bucket contains loans that have identifiable losses within a portfolio. Expected lifetime losses are recognised immediately in profit or loss; and

* The third bucket contains loans that have identifiable losses within an individual loan. Expected lifetime losses are recognised immediately in profit or loss.

Both the IASB and the FASB plan to continue deliberating the project in the weeks leading up to the 26 October 2011 AASB meeting. Due to the timing of the meetings, staff will table a high-level project update (in the form of slides) at the October 2011 meeting.