Impairment of financial assets
A closer look at how the IASB and FASB considered feedback

On 31 January 2011, the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) issued for public comment a joint Supplement to the IASB's original proposals in ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*. The Supplement proposes an expected loss impairment model that aims to achieve convergence between the IASB's original proposals and the FASB's original proposals in *Accounting Standards Update Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. The IASB's version of the Supplement also includes a separate appendix proposing presentation and disclosure requirements; the FASB has not yet deliberated these issues. Our IFRS in Focus **IASB and FASB issue joint proposals on impairment of financial assets** provides a summary of the proposals in the Supplement and the IASB's appendix.

These proposed revisions to impairment accounting will no doubt have significant implications, particularly for those in the banking industry. This publication will highlight the views and concerns on the IASB's original proposals and how they have been addressed in the new proposals.

The story so far

Following criticism during the recent financial crisis of IFRSs and US GAAP's incurred loss models, the IASB published an exposure draft (ED) on amortised cost measurement and impairment, proposing to require entities to estimate the amount and timing of expected future cash flows (e.g. future credit losses) using a probability-weighted approach. Under that approach, an entity would consider all available information in developing estimates about future cash flows for a financial asset. The amortised cost measurement of the asset would be the present value of these expected future cash flows. Expected credit losses (i.e., the contractual cash flows not expected to be received) would then be recognised through the effective interest rate (EIR) as a reduction in interest revenue. The allowance account would increase each period by that portion of interest revenue not recognised as a result of the expected credit losses built into the EIR calculation. This systematic reduction of the EIR resulting from the initial estimate of future cash flows would be locked in over the life of the instrument with any subsequent revision of estimates recognised immediately in profit and loss. The rational for differing treatment of initial estimates and subsequent changes in estimates relates to the IASB's belief that credit risk is a key input in the pricing of an asset and therefore initial estimates of future credit losses should be a component of interest revenue recognition while subsequent changes in estimates are a result of credit deterioration and therefore should be recognised immediately in profit or loss.

The FASB's original proposals on impairment focused on ensuring the allowance account was sufficiently reserved for all lifetime expected credit losses. To accomplish this, entities would be required to recognise impairment expense during the period the expected loss estimate was made. This effectively results in immediate recognition of lifetime expected credit losses in profit or loss.

The model proposed in the joint Supplement includes separate approaches for recognising expected losses for performing assets in a 'good book' and for troubled assets in a 'bad book'. The lifetime expected losses for assets in the 'good book' would be recognised under a time-proportional approach based on the age and expected life of the portfolio, subject to a minimum allowance of at least those losses expected to occur over the foreseeable future (defined as a period not less than twelve months after the reporting date). Lifetime expected losses for assets in the 'bad book' would be immediately recognised.

Responses to the IASB's original proposals

In total, the IASB received 193 comment letters on its November 2009 proposals from a wide range of constituents including banking institutions, banking industry groups, banking regulators, national accounting standard setters, public accounting organisations and financial statement users. Summarised below are some of the key themes emerging from these comments and how they have been addressed in the Supplement.

Support for expected loss impairment model

> *"[We] welcome the initiative of the IASB to amend the current 'incurred loss' impairment model to a more forward looking 'expected loss' impairment model."*
> **European Banking Federation**

Comment letter feedback: Most respondents were generally supportive of a move from an incurred loss to an expected loss model, although it is important to note that the expected cash flow model proposed in the IASB's original ED is only one potential variant of an expected loss approach. The primary reasons cited for support of an expected loss model are earlier recognition of impairment losses and concerns that inconsistent application of the current incurred loss model leads to a lack of comparability among banking institutions. Some respondents also suggested a separate recognition model (similar to the current incurred loss model) for non-performing assets to align more closely the accounting for such assets with how they are treated from a credit loss management perspective.

Supplement response: The IASB retained an expected loss model in the Supplement's proposals while also introducing a 'bad book' approach for troubled assets. Under the 'bad book' approach, the entire amount of expected losses would be recognised immediately when the asset is transferred from the 'good book' to the 'bad book'. The IASB considered whether to provide specific criteria for when items should be transferred from the 'good book' to the 'bad book' (e.g., items greater than 90 days past due). The IASB acknowledged that although doing so would provide consistent application across entities, it may not provide decision useful information in all instances as various asset classes will perform differently and therefore a fixed term for determining troubled assets may not be relevant. As a result, the IASB agreed that transfers between the 'good book' and the 'bad book' should follow an entity's credit risk management process for troubled loans (i.e., expected credit losses would be fully recognised at the point when the objective changes from receiving regular payments to recovery of the financial asset).

Concern over IASB and FASB convergence

> *"We find it unsatisfactory that the IASB and FASB have proposed such different models for the calculation of impairment. We appreciate that the underlying classification and measurement models are very different, but we do not accept that this should necessarily result in a different approach to impairment. In our view, a common approach to impairment is critical to the ability to reconcile the two accounting frameworks and thus to continue progress towards a single set of accounting standards. We therefore urge the boards to work closely together to remove any differences in their respective approaches."*
> **Association for Financial Markets in Europe**

Comment letter feedback: Many respondents expressed concern over the differing proposals originally put forward by the IASB and the FASB; in particular the difference between the profit or loss impact of immediate recognition of expected credit losses under the FASB proposals and the recognition of expected credit losses over the life of an asset through the EIR as proposed by the IASB.

Some respondents also mentioned that the comment period for the IASB's ED closed within one month of the issuance of the FASB's proposals, such that respondents were not given sufficient time to consider and contrast the proposals.

Supplement response: The two Boards have worked to reconcile their differences. This was not an easy task given that the Boards started with very different objectives in their impairment proposals. The IASB's objective focused on credit risk being a component in the pricing of an instrument which should reduce the amount of interest revenue recognised (sometimes referred to as an income statement approach). In contrast, the FASB's objective focused on ensuring that the allowance account was sufficient to cover expected losses (sometimes referred to as a balance sheet approach). The Boards reached a compromise position with the introduction of the minimum floor allowance as part of the time-proportional recognition approach.

Conceptual concerns

> *"We have concerns that the proposed measurement principles result in a model that may appear to be increasing precision, but instead add more subjectivity and sensitivity due to the greater number of unobservable inputs required. There is a danger in applying such a model, as the perception that it is achieving greater accuracy contrasts to the reality of its decreased reliability."*
> **Credit Suisse**

While many comment letter respondents acknowledged that the proposals within the ED were 'conceptually pure', there were certain elements of the proposals with which constituents expressed conceptual concerns.

Integrating credit losses into interest margin

> *"We believe there are fundamental conceptual flaws with the proposal's effective interest method for recognizing expected credit losses that cannot be overcome … Furthermore, although [we] understand the theoretical basis for recognizing expected credit losses using an effective interest method, we do not believe an impairment framework that commingles the measurement of an entity's performance with respect to interest rate risk and credit risk produces the most decision-useful information."*
> **U.S. Banking System Regulators**

Several respondents expressed conceptual concerns with the proposal to recognise expected credit losses as a reduction of interest revenue.

Comment letter feedback: Several respondents expressed conceptual concerns with the proposal to recognise expected credit losses as a reduction of interest revenue. Many preparers felt this would not provide decision useful information and would reduce transparency for investors and analysts by distorting the net interest margin, a key performance indicator for financial institutions. Additionally, one financial statement user commented that contractual cash flows for financial assets measured at amortised cost provides predictable information; whereas credit loss information is much less predictable due to anticipating the amounts and timing of losses.

Supplement response: The Supplement proposes that interest revenue and impairment losses be presented in separate line items within profit or loss. This should address concerns over useful information being lost by presenting credit losses as a reduction in interest revenue.

Inconsistent treatment of initial expected loss estimates and subsequent changes in estimates

> *"The approach proposed in the ED is inconsistent in its treatment of initial credit loss estimates (taken over the life of the instrument) and any revisions to that initial estimate (taken to profit and loss immediately). This would result in greater volatility, pro-cyclicality and a reduction in the comparability of financial statements. We understand that the Board believes that the pricing of a financial instrument reflects the initial loss estimate which should therefore be charged over the life of the instrument, whereas subsequent (unexpected) changes should be accounted for immediately. The result would be profit or loss to a significant degree reflecting the quality of management forecasts rather than the quality of the loan book."*
> **Royal Bank of Scotland**

Comment letter feedback: Several banking institutions expressed disagreement with the proposals to recognise initial estimates of expected losses as part of the EIR over the life of the instruments but to recognise any subsequent changes in those estimates immediately in profit or loss. Some felt that this could result in arbitrage opportunities and earnings volatility and there was no conceptual basis for asymmetric accounting of original estimates and subsequent changes in those estimates. Some also analogised the 'cliff effect' created by the immediate recognition in profit or loss of subsequent changes in estimates to a fair value measurement, contradictory to the principles of an amortised cost measurement. Respondents also expressed concern over the potential for pro-cyclicality, a concern also raised during the financial crisis with fair value accounting. Under the incurred loss model, there is a belief that credit losses tend to be underestimated during positive economic periods and then overestimated during economic downturns. Immediate recognition within profit or loss of subsequent changes in estimates during an economic slowdown (with a tendency toward overestimation) could result in additional strain on financial institutions and the financial system as a whole. Some respondents also supported differentiating the accounting for subsequent changes in estimates attributable to "better information" on the level of credit risk at initial recognition of the asset and those changes in estimates directly attributable to subsequent changes in credit quality.

Supplement response: The Supplement provides a single approach (referred to as the time-proportional approach) for recognising expected credit losses (both initial estimates and subsequent changes). In open portfolios, where financial assets are continuously being added and removed, it is operationally difficult to differentiate estimates of expected credit losses between initial estimates and subsequent changes in estimates because of the constant turnover of assets within the portfolio. The new proposals include a single estimate each period of expected credit losses recognised on a time-apportioned basis (subject to certain criteria discussed below).

It is important to understand that the IASB decided on this approach to address operational concerns about open portfolios rather than to address any conceptual concerns over the inconsistency in treatment of initial estimates and changes in estimates. The proposals in the Supplement do not address impairment recognition for closed portfolios or individual instruments, however the Supplement does request constituent feedback on application of the proposals to closed portfolios or individual instruments to identify whether any separate considerations are needed for those items.

Insufficient provisioning

> *"A further conceptual issue is the ability to have a debit balance for a provision against an asset, as can arise where expected losses arise early in the life of a loan. While this might be consistent with the proposed model, we believe this indicates the model needs to be reconsidered if it is to achieve the goal of earlier recognition of credit losses."*
> **Association for Financial Markets in Europe**

Comment letter feedback: Some respondents expressed concern over the possibility of having a negative or insufficient allowance reserve. This is particularly a concern when losses occur early in the life of an asset and exceed the allowance account built up through a reduced EIR. Some suggested the inclusion of a 'floor' for the allowance to prevent this 'negative provisioning'.

Supplement response: As part of the IASB and FASB deliberations, the Boards were provided loan loss data from portfolios of different U.S. financial institutions by the U.S. Office of the Comptroller of the Currency. Some of the highlights of the credit loss data presentation were that:

- losses do not occur smoothly throughout the life of a financial asset;
- when losses occur, the losses tend to be significant; and
- financial assets with a lower risk rating typically have a quicker default period.

The Supplement includes two proposals intended to assist in establishing a sufficient allowance reserve. The first is the incorporation of a 'bad book' impairment model that would require the immediate recognition of expected credit losses for assets where management's objective has changed from collection of contractual payments to recovery of the financial asset. The second is a proposed minimum 'floor' allowance within the time-proportional approach that, when applicable, would require the immediate recognition of credit losses expected to occur within the foreseeable future (not less than twelve months from the reporting date).

Use of probability weighted averages in determining expected cash flows

> *"The ED requires estimates of future losses to be based on probability-weighted outcomes. We have concerns about the application of this method to single, high value items … We do not believe that this concept is used in practice for developing loss expectations for loan portfolios for risk management or financial reporting or could be successfully implemented, given that the timing of missing cash flows cannot be predicted. Rather, entities may be able to determine life time expected losses by considering past loss experience."*
> **The Institute of Chartered Accountants in England and Wales**

Comment letter feedback: In addition to operational concerns, many respondents expressed conceptual difficulties with the proposal to utilise probability-weighted outcomes in determining the expectation of future cash flows, believing that probability-weighted outcomes introduce a significant level of subjectivity and do not provide a more meaningful estimate than would a single 'most likely' estimate. Particularly, the use of probability weighted outcomes for large individual items may result in an amount that is not one of the expected outcomes.

Supplement response: The Supplement discusses what information would be considered in developing an estimate of expected losses, but does not describe how to measure expected credit losses. However, the IASB stated that comments received on other topics of amortised cost measurement and impairment which have not yet been redeliberated will be used as a basis for future discussions. As a result, it is still possible that the requirement to use probability-weighted outcomes may be revisited in the future.

Operational concerns

Comment letter respondents pointed out a number of potential operational difficulties in applying the IASB's proposed approach.

Inconsistency with risk management

> *"The proposed expected cash flow model is based in pure discounted cash flow analysis theory and does not reflect the way in which banks price loans, manage credit risk or gather data and maintain systems."*
> **British Bankers' Association**

Comment letter feedback: One of the major concerns expressed by respondents was that the proposed impairment model is inconsistent with internal risk management processes and regulatory requirements. That inconsistency applies to a number of concepts such as the implied requirement to use closed portfolios (as the proposals were not seen to be operational for open portfolios), integrating impairment into the calculation of the EIR and the use of a probability-weighted outcomes of expected losses. Respondents commented that these inconsistencies would significantly increase the operational burden for both implementation and continued application as entities would have to maintain several impairment methodologies and data sources. However, a few respondents accepted having different approaches for risk management, financial and regulatory reporting, because each of them is intended to accomplish different objectives.

Supplement response: The IASB attempted to address several of these concerns. First, the Board decided to 'decouple' expected credit losses from the EIR. Decoupling allows credit loss estimates to be considered separately from interest revenue recognition. Interest revenue is often calculated on an instrument-by-instrument basis while credit risk management analysis is often performed at a portfolio level, each managed from separate computer systems. The IASB believes that decoupling will enhance the ability of the impairment model to be applied to open portfolios, closed portfolios or single instruments. Second, in developing the parameters for the 'bad book' impairment model, the IASB agreed that an entity would determine when items should be transferred between the 'good book' and the 'bad book' based on their credit risk management process for troubled assets. This decision also helps to address the concern that the impairment model was inconsistent with banking entities' credit risk management processes.

Required system modifications

> *"The magnitude of the costs that might be involved in implementing the IASB's proposed impairment model are likely to be at least as significant as the costs incurred in adopting IAS 39 in 2005/2006."*
> **Australian Accounting Standards Board**

Comment letter feedback: Respondents were concerned that the original proposals would result in the need for significant system modifications as the determination of impairment is typically part of the credit risk management function whereas the calculation of the EIR is part of the financial reporting function. Credit loss management and EIR information are typically housed within seperate computer systems with no integration between the two. The need for significant system modifications would result not only in major changes to both of these functions, but also in a longer required lead time for implementation. These respondents noted that major system modifications would significantly drive up implementation costs and questioned whether the expected benefits of the proposed approach would outweigh the implementation costs.

Supplement response: As mentioned above, the IASB has decided to 'decouple' the expected credit losses from the EIR. The IASB anticipates this will limit the extent of system modifications that would have been required under the original proposals. However, application of the time-proportional approach may still require some level of system modifications or enhancements.

Applicability and scope

> *"The practical application must be considered in the context of open dynamic loan portfolios and loan products that do not have fixed repayment terms such as revolving or demand loans."*
> **Canadian Bankers Association**

Comment letter feedback: Many respondents criticised the original proposed impairment model because they considered it to be inconsistent with the way in which many banking institutions manage their loan portfolios (i.e., on an open portfolio basis). The original proposals would require subsequent changes in initial expected loss estimates to be recognised immediately in profit or loss. However, for dynamic, open portfolios with loans constantly added and removed, many thought it would be all but impossible to isolate the portion of the subsequent change in expectations that relates to loans initially included in the portfolio and the portion that relates to subsequent additions to and removals from the portfolio.

A number of respondents also questioned the applicability of the proposed approach to variable rate instruments and revolving facilities. The proposal would result in the recognition in profit or loss of a catch up adjustment at the end of each period due to the effect of changes in interest rates, even though credit deterioration may not have occurred. Many thought that this proposal would result in misleading financial reporting and would also introduce additional complexity with the requirement to obtain instrument-level information. With regards to revolving loans and credit card receivables with no pre-determined principal repayments and balances which roll forward from period to period, respondents commented that any prediction of future cash flows would be subjective and difficult to implement and questioned whether the resulting information would be useful for users of financial statements.

A number of respondents stated a preference for application of the same impairment methodology to loan commitments and financial guarantees as is used for loan receivables. Loan commitments and guarantees to a customer are generally entered into under the same facility as loans and managed under the same business model; therefore they are subject to the same risk assessment process. Financial institutions generally consider both loans and loan commitments together when completing their credit assessment; they also generally apply IAS 37 Provisions, Contingent Liabilities and Contingent Assets using the impairment system applicable to their loan portfolio to measure provisions for loan commitments and financial guarantees. Respondents commented that because loans, loan commitments and financial guarantees all have similar characteristics, using a similar measurement approach for these types of instruments would avoid potential inconsistencies between the measurement approach for provisions for loan commitments and impairment allowances.

… the IASB's redeliberations have focused primarily on the operational concerns with the proposals …

Supplement response: As mentioned above, the IASB's redeliberations have focused primarily on the operational concerns with the proposals and how the proposals could be modified in order to be applied to open portfolios. The Supplement does not mandate a specific methodology for applying the time-proportional approach, permitting entities to use an approach that aligns with their credit risk management processes and systems.

The IASB's redeliberations have not specifically addressed the application of the time-proportional approach to revolving facilities and credit card receivables.

While the IASB has not yet developed a view on whether loan commitments and guarantees should be within the scope of the proposed impairment model, the appendix to the Supplement does include a specific question on this issue to enable the Board to obtain feedback from constituents and make an appropriate decision.

Use of practical expedients

> *"[We] agree with the proposal that entities should be able to resort to practical expedients for calculating amortised cost. The possibility of resorting to such measures seems particularly important for smaller entities for which the calculation of amortised cost could otherwise be a difficult task. At the same time the fact that the ED allows the use of such practical expedients only if their overall effect is immaterial effectively limits their use in practice."*
> **Committee of European Banking Supervisors**

Comment letter feedback: The IASB allowed practical expedients for measurement of amortised cost in their original proposals. One of the practical expedients provided in the proposals is the ability to allocate expected losses over the expected life of a financial asset rather than through the EIR when the difference would be immaterial. Some respondents suggested that these practical expedients would not be necessary if the IASB addressed the operational concerns of the original proposals, while many commented that the need to prove that the use of a practical expedient would result in an immaterial difference defeats the purpose of having a practical expedient.

Supplement response: The IASB did not address practical expedients for amortised cost measurement in the Supplement. It is likely that the IASB will consider the feedback received on the proposals within the Supplement and then determine if any practical expedients are still required.

Experience with other expected cash flow approaches

> *"Expected cash flow models like the one proposed in the ED are currently required for certain portfolios of acquired loans under US GAAP in ASC 310-30 (formerly AICPA Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer). The accounting for those portfolios of loans is generally done manually today. Such models require estimates of both the amount and timing of expected losses and have been criticised for being overly subjective and providing information that is not significantly useful."*
> **Citigroup**

Comment letter feedback: The IASB received comments from respondents in the U.S. with experience in applying an expected cash flow model for certain acquired portfolios under ASC 310-30 (formerly AICPA Statement of Position 03-3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* ("SOP 03-3")). One respondent noted that even large financial institutions skilled in using sophisticated models encounter signficant operational challenges in applying impairment measures based on discounted cash flows on a large scale. It was mentioned that a significant amount of the accounting under SOP 03-3 (which became effective for loans acquired in 2005) continues to be managed largely through spreadsheets because of the difficulty in making the system modifications to perform the complex calculations required. Some US GAAP preparers also stated their belief that the information provided under SOP 03-3 was confusing and did not improve decision making for investors.

Supplement response: The IASB did not specifically address these concerns as part of their redeliberations. The decision not to require a specific method for applying the time-proportional approach (therefore allowing a straight-line, undiscounted approach) may alleviate some of the difficulties banking institutions have experienced in applying SOP 03-3, although entities will still be required to estimate expected losses and allocate them over future periods.

There was general support for many of the proposed disclosure requirements, though constituents expressed concern over the volume of disclosures and the detail required.

Disclosures

Comment letter feedback: There was general support for many of the proposed disclosure requirements, though constituents expressed concern over the volume of disclosures and the detail required. There were also concerns over certain specific disclosure requirements. Many respondents also recommended that the disclosure requirements be reconsidered after a final impairment model is determined as some disclosure proposals may no longer be relevant.

Sensitivity analysis

> *"The Board should reconsider the proposed disclosure requirements regarding reasonably possible alternatives. We believe that such a disclosure requirement could be excessively burdensome as the number of reasonably possible alternatives for various inputs over long time periods could be numerous."*
> **Regions Financial Corporation**

Comment letter feedback: The original ED proposed that an entity would be required to disclose if changing one or more of the inputs would result in a change in the expected credit losses. Given the complexity and subjectivity involved with the required weighted average probability analysis and the estimation of both the amount and timing of the expected losses, many respondents felt that requiring a sensitivity analysis would add an additional layer of complexity and subjectivity. Some also expressed concern regarding comparability of sensitivity analysis disclosures and instead suggested providing qualitative information on the development of the expected loss estimates.

Stress testing

> *"Since the stress testing disclosure should only be provided by some entities (if an entity prepares stress testing for internal risk purposes) we are also concerned about comparability. For these reasons it is [our] view that the stress testing disclosures in paragraph 20 are superfluous and should be omitted in the final standard."*
> **European Financial Reporting Advisory Group**

Comment letter feedback: The proposals within the ED require that if an entity prepares stress testing as part of its internal risk management process, then it should disclose that fact as well as provide information on the impact on the financial statements and the entity's ability to withstand the stressed scenarios. Many respondents had concerns with this proposal, particularly because of the lack of comparability as only those entities that use such information for risk management purposes are required to disclose this information.

Vintage information

> *"We are concerned that the proposed disclosures are extensive and, in some respects, inoperable as well. Systems would need to be created by many institutions for vintage data, for example, as these requirement do not align to how credit risk is managed which is usually on the basis of open portfolios."*
> **Barclays**

Comment letter feedback: The ED also proposed that the year of origination and the year of maturity be disclosed, for each class of financial asset measured at amortised cost. Many banking institutions commented that vintage information is not a significant consideration when determining loss default estimates for many types of loans, particularly those in open portfolios, and therefore this disclosure requirement would not produce information that is decision useful to investors. Additionally, many respondents mentioned that this information is not currently tracked as new originations are simply added within an open portfolio, so that system modifications would be necessary to provide this disclosure.

Loss triangles

> *"Banks' existing systems would not be able to provide [the loss triangle] information, in particular due to the fact that portfolios are typically managed on an open basis and are not typically segregated by period of origination."*
> **HSBC**

Comment letter feedback: The 'loss triangle' disclosure requirement is closely tied to the vintage information disclosure requirement above. Preparers would be required to provide, in a tabular format, a comparison of the build up of the loss allowance and cumulative write-offs by origination period. Concerns here mirrored the concerns expressed for vintage information as preparers stated they do not track vintage information for credit loss management purposes and the disclosure requirement would not be operational for open portfolios.

Non-performing assets

> *"In order to ensure that disclosures are both meaningful and timely, it is important that the definition of 'non-performing' is aligned to the maximum extent possible with the way in which banks manage credit risk."*
> **Basel Committee on Banking Supervision**

Comment letter feedback: The original proposals would require a reconciliation of changes in non-performing financial assets during the period and qualitative information about how those changes impact the allowance account, defining non-performing assets as "a financial asset that is more than 90 days past due or is considered uncollectible." Many respondents expressed concern either with the definition of non-performing assets provided or that the Board had attempted to define non-performing assets at all. Some stated that since their non-performance criteria varied by asset class, providing disclosures for assets 90 days past due would not be consistent with their risk mitigation processes and would not provide comparable information between asset classes.

Supplement response: The disclosure requirements included in the original ED which were not directly related to application of the impairment model (e.g., stress testing, vintage information and credit quality of assets) have not yet been redeliberated. The IASB is expected to consider the comments received on the original proposals in determining whether to retain these disclosure requirements.

A new set of disclosure requirements related to impairment recognition are proposed in the appendix to the Supplement. The IASB's proposed disclosures intend to provide financial statement users with information about:

- activity in the allowance account;
- factors that could impact credit losses for the 'good book';
- significant gains or losses from changes in expected loss estimates, particularly arising from specific portfolios or geographic areas;
- the credit risk management process and how the 'good book' and 'bad book' distinction has been made;
- management's assessment of expected losses;
- inputs and assumptions used in estimating credit losses; and
- performance of expected loss estimates with actual outcomes (e.g., backtesting).

Summary

The IASB and FASB have attempted to strike a balance between the sometimes conflicting requirements for conceptual purity and operational workability, while addressing the differing objectives of the two Boards. Constituents, in particular preparers of financial statements, will need to decide whether they have achieved this goal. The Boards have provided only a 60 day comment period, which means constituents will have to formulate their views on the Supplement's proposals promptly.

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