PRESS RELEASE

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IASB and FASB propose common solution for impairment accounting

- Boards jointly address fundamental aspect of financial instruments accounting –

The International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB) have today published for public comment proposals for accounting for impairment of financial assets such as loans managed in an open portfolio.

At present, International Financial Reporting Standards (IFRSs) and US generally accepted accounted principles (GAAP) account for credit losses using an incurred loss model, which requires evidence of a loss (known as a trigger event) before financial assets can be written down. The boards have proposed moving to an expected loss model that provides a more forward-looking approach to how credit losses are accounted for, which they believe better reflects the economics of lending decisions.

The proposals are published as a supplement to an exposure draft published by the IASB in November 2009, and a separate FASB exposure draft published in May 2010. Those exposure drafts outlined different methods to account for credit impairment. Since then, the boards have worked to align their approaches. In doing so, they have sought to take account of responses to the original exposure drafts and recommendations made by the Expert Advisory Panel (EAP), an external group of risk management experts tasked with considering the operational consequences of applying an expected loss model as well as responses to the FASB proposal.

Sir David Tweedie, Chairman of the IASB, commented:

A major complaint in the financial crisis was that when loan losses were recognised, it was a case of ‘too little, too late’. Such a situation highlighted the need for a more-forward looking approach to loan losses to ensure provisions are made much earlier than before. The proposed move to an expected loss model will address this issue, in addition to aligning IFRSs and US GAAP.

Leslie F Seidman, Chairman of the FASB, said:

The FASB and IASB have heard the urgent call for an improved, converged approach to impairment of debt instruments. We are keenly interested in whether investors think this revised approach provides relevant and timely information about credit losses, and whether reporting entities find the proposed requirements operational.
The supplementary document is open for public comment until 1 April 2011 and can be accessed via the IASB and FASB websites. During the consultation period, the IASB and the FASB will undertake further outreach to seek views on the supplementary document.

An interactive webcast by the IASB on the proposals will be held at 10am (UK time) on 4 February, and repeated at 4pm (UK time) on the same day. To register, please [click here].

A summary of the proposals (IASB Snapshot) is available to download, please [click here].

Press enquiries:
Mark Byatt, Director of Communications, IFRS Foundation
Telephone: +44 (0)20 7246 6472
Email: mbyatt@ifrs.org

Neal McGarity, Director of Communications, FASB
Telephone: +1 203 956 5347
Email: nemcgarity@fasb.org

Technical enquiries:
Sue Lloyd, Director of Capital Markets, IASB
Telephone: +44 (0)20 7246 6454
Email: slloyd@ifrs.org

Sara Glen, Practice Fellow, IASB
Telephone: +44 (0)20 7246 6933
Email: sglen@ifrs.org

Chris Roberge, Project Manager, FASB
Telephone: +1 203 956 5274
Email: ceroberge@fasb.org

Notes to editors
About the IASB
The IASB was established in 2001 and is the standard-setting body of the IFRS Foundation, an independent, private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. The IASB has 15 full-time members drawn from 11 countries and a variety of professional backgrounds. By 2012 it will be expanded to 16 members. IASB members are appointed by and accountable to the Trustees of the IFRS Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience. In their work the Trustees are accountable to a Monitoring Board of public authorities.
About the Financial Accounting Standards Board

Since 1973, the US Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information. For more information about the FASB, visit its website at www.fasb.org.