International Financial Reporting Standards

Impairment

Credit deterioration approach

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB or IFRS Foundation

Project timeline

November 2009
IASB published exposure draft of impairment proposals

May 2010
FASB published exposure draft of impairment proposals

January 2011
IASB and FASB published supplementary document to impairment proposals

H2 2012
IASB and FASB to re-expose impairment proposals

2013
Issue final requirements

January 2015
Tentative effective date

Impairment: General overview

Guiding principle: Reflect general pattern of deterioration and improvement of credit quality of financial assets

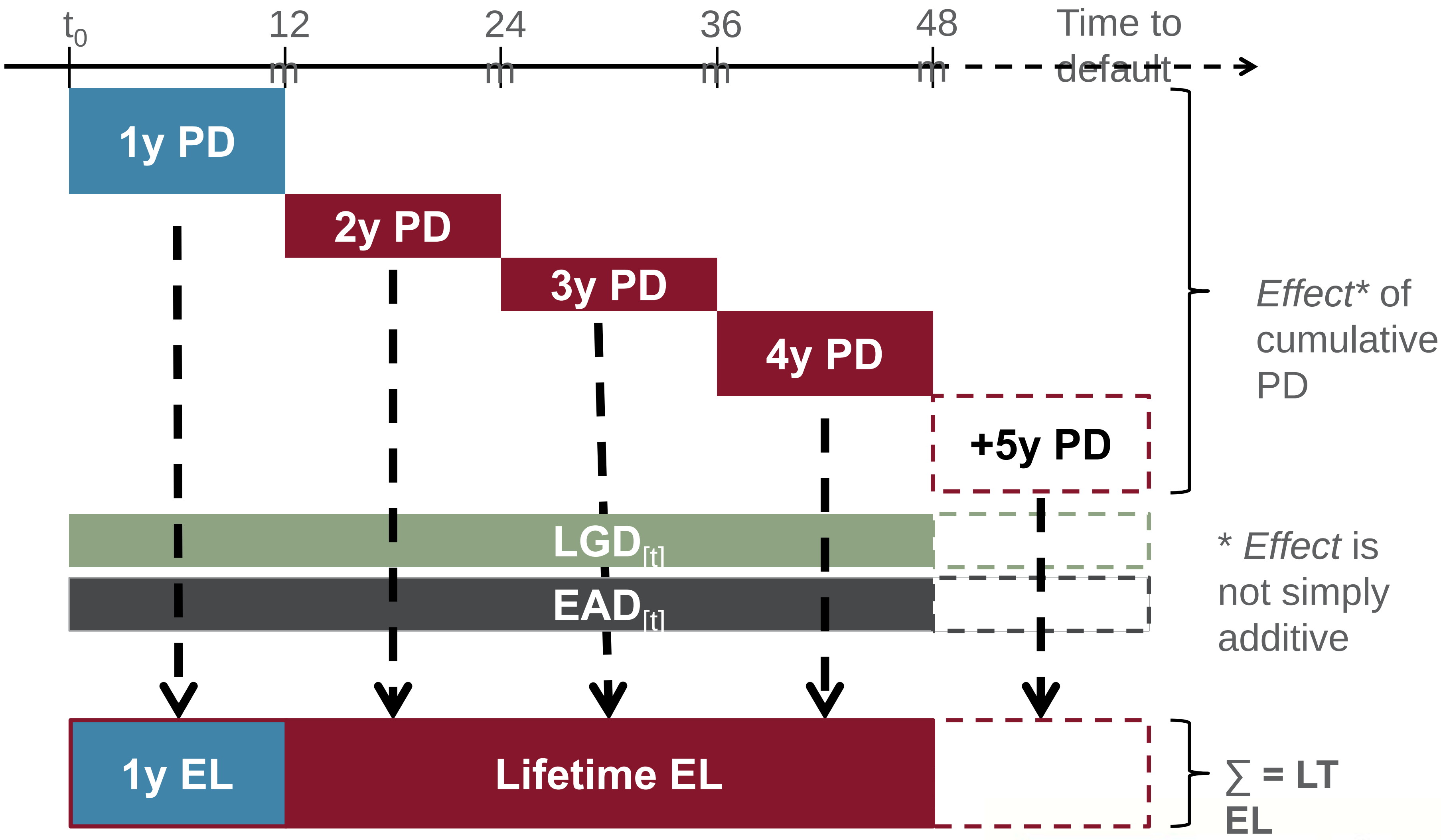
- Expected loss model
- Responsive to changes in information that impact credit expectations
- Inappropriate to recognise full lifetime losses on initial recognition of financial assets priced at market
- Deterioration in credit quality leads to recognition of lifetime losses
- Robust disclosures to support principle and support comparability

General deterioration model

Credit quality deterioration since initial recognition →

	Stage 1	Stage 2	Stage 3
Impairment recognition	12 month expected loss	Lifetime expected loss	Lifetime expected loss
Interest revenue	Gross basis	Gross basis	Net basis

Amount of LLA by population segment



When to measure lifetime expected loss

- Measure lifetime losses if:
  - Credit quality has deteriorated *more than insignificantly* since initial recognition; and
  - The likelihood that contractual cash flows will not be collected is at least *reasonably possible*
- Symmetrical model

When to calculate net interest

- Calculate interest on net basis when satisfies IAS 39 criteria for impairment
- Consistent with population considered impaired under IAS 39 today (excluding IBNR)
  – therefore accounting stays the same for these assets

Credit-impaired on initial recognition

- Scope
  - Both *originated* and *purchased* credit-impaired
  - same population as IAS 39 impaired
- Always outside general deterioration model
- Use credit-adjusted effective interest rate
  - No day 1 allowance balance
  - No day 1 impairment loss recognised
- Allowance balance represents *changes* in lifetime loss expectations

Trade and lease receivables

Without a significant financing component (eg short term):

- Measure receivable at invoice amount
- Allowance is always lifetime expected losses
- Provision matrix can be used

With a significant financing component (eg long term) and lease receivables:

- Policy election:
  - general deterioration model or
  - always recognise lifetime expected losses

Loan commitments and financial guarantee contracts

Apply general deterioration model

- Instruments that create a present legal obligation to extend credit
- Maximum contractual period exposed to credit risk
- Estimate usage behaviour over the lifetime
- Expected losses presented as liability

Disclosures

- Inputs, assumptions and techniques used in:
  - estimating expected credit losses; and
  - assessing whether the recognition of lifetime expected losses have been met.
- Roll-forward of the carrying amount and allowance balance
- Disaggregation of carrying amount by credit quality
- Credit-impaired assets at initial recognition
- Collateral
- Assets evaluated on individual basis

Disclosures (cont’)

- Qualitative information related to the discount rate
- Modifications of assets with lifetime losses
- Balance of financial assets:
  - defaulted assets
  - 90 days past due that are measured with a 12 months’ expected credit loss measurement objective
- Interest revenue: Amount and measurement

Transition

- On transition, use initial credit quality unless requires undue cost or effort
- If initial credit quality not used, evaluate based on second criteria for lifetime losses
- Permit but not require restatement of comparatives
- The disclosures in paragraph IAS 8.28(f):
  - Should be required for the current period
  - Should be permitted but not required for prior periods

Questions or comments?

Expressions of individual views by members of the IASB and
its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process
and deliberation.

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