



International Accounting Standards Board®

Press Release

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IASB publishes proposals on the impairment of financial assets

The International Accounting Standards Board (IASB) today published for public comment an exposure draft on the amortised cost measurement and impairment of financial instruments. The proposals form the second part of a three-part project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a new standard, to be known as IFRS 9 *Financial Instruments*. Proposals on the classification and measurement of financial instruments were published in July, with a final standard expected shortly, while proposals on hedge accounting continue to be developed.

Both International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) currently use an incurred loss model for the impairment of financial assets. An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value.

The global financial crisis has led to criticism of the incurred loss model for presenting an initial, over-optimistic assessment of no credit losses, only to be followed by a large adjustment once a trigger event occurs.

Responding to requests by the G20 leaders and others, in June 2009 the IASB published a Request for Information on the practicalities of moving to an expected loss model. The responses have been taken into account by the IASB in developing the exposure draft.

Under the proposals expected losses are recognised throughout the life of the loan (or other financial asset measured at amortised cost), and not just after a loss event has been identified. This would avoid the front-loading of interest revenue that occurs today before a loss event is identified, and would better reflect the lending decision. Therefore, under the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements would provide investors with an understanding of the loss estimates that an entity judges necessary.

The IASB is aware of the significant practical challenges of moving to an expected loss model. For this reason an Expert Advisory Panel (EAP) comprising experts in credit risk management is being established to advise the board. An eight-month comment period has been provided to allow adequate time for entities to consider the impact of such a change within their organisation.

The IASB will continue the unprecedented level of outreach activity currently being undertaken in reforming the accounting for financial instruments. The IASB will also co-operate closely with the US Financial Accounting Standards Board (FASB) with a view to agreeing a common approach to the impairment of financial assets.

Introducing the exposure draft, Sir David Tweedie, Chairman of the IASB, said:

Consistent with requests from the G20 and others, the IASB has moved swiftly to reform the accounting for financial instruments. These proposals on the impairment of financial assets measured at amortised cost form the second part of this project.

Although moving to a single impairment model significantly reduces complexity, the challenges of applying an expected loss approach should not be underestimated. For this reason the IASB will tread carefully and seek input from a broad range of interests before deciding how to proceed.

An IASB ‘Snapshot’, a high level summary of the proposals, is available to download free of charge from the project section of the IASB website.

The proposals in the exposure draft *Financial Instruments: Amortised Cost and Impairment* are open for comment until 30 June 2010. After considering comments received on the exposure draft, the IASB plans to issue an IFRS in 2010 that would become mandatory about three years later with early application permitted. The exposure draft is available on the ‘Open for Comment’ section on www.iasb.org. Subscribers may also view the document in eIFRSs.

Printed copies of the exposure draft (ISBN: 978-1-907026-43-0) will be available shortly, at £12 plus shipping, from:

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Notes for editors

About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) 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 ten countries and a variety of professional backgrounds. By 2012 the IASB will be expanded to 16 members. Members are appointed by and accountable to the Trustees of the IASC 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.