PRESS RELEASE

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IASB publishes revised proposals for loan-loss provisioning

Expected credit loss approach improves timeliness of recognition of credit losses

The International Accounting Standards Board (IASB) today published for public comment a revised set of proposals for the impairment of financial instruments. The proposals build upon previous work to develop a more forward-looking provisioning model, which recognises expected credit losses on a more timely basis.

Financial reporting requirements both internationally and in the US currently use an incurred loss model to determine when impairment is recognised on financial instruments. The incurred loss model requires that a loss event occurs before a provision can be made and was introduced to avoid the use of so-called 'big bath' general provisions that distorted the accurate reporting of financial performance to investors. However, during the financial crisis the incurred loss model was criticised for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

Consistent with requests from the G20, the Financial Crisis Advisory Group[1] (FCAG) and others, the IASB and the US Financial Accounting Standards Board (FASB) have been working jointly to develop a more forward-looking impairment model that reflects expected credit losses. The proposals published today build upon the expected credit loss model previously agreed between the IASB and the FASB, but it has been simplified to reflect feedback received from interested parties. The FASB has published separately for public comment an alternative expected credit loss model and the two sets of proposals have overlapping comment periods.

The IASB model is designed to recognise credit losses on a more timely basis. Expected credit losses are recognised on all financial instruments within the scope of the proposals from when they are originated or purchased.

[1] The FCAG was an advisory group of senior figures that was formed to advise the IASB and the FASB on their joint response to the financial crisis. The report of the FCAG is available to download from www.ifrs.org

Full lifetime expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality. This is a significantly lower threshold than under the incurred loss model today which in practice has resulted in provisioning only when financial assets are close to default.

Hans Hoogervorst, Chairman of the IASB commented

> "Our proposals are a simplified version of the expected credit loss approach that we originally jointly developed with the FASB. We believe the model leads to a more timely recognition of credit losses. At the same time, it avoids excessive front-loading of losses, which we think would not properly reflect economic reality.
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> We look forward to receiving feedback on these proposals and moving swiftly to finalise this important project, consistent with repeated requests of the G20."

The Exposure Draft *Financial Instruments: Expected Credit Losses* will be subject to public consultation for a period of 120 days, with the comment period closing on 5 July 2013.

More information

1. A high level 'Snapshot' summary of the proposals is available to download from here.
2. The Exposure Draft is available to download via the "comment on a proposal" section of the IFRS website at www.ifrs.org.
3. An *Investor Perspectives* article by IASB Board Member Pat Finnegan, introducing the proposals and including illustrative examples, is available from here.
4. The project team will host an interactive webcast to introduce the proposals at 10am London time on 13 March 2013. The webcast will be repeated at 2pm on the same day. Details of how to register for the webcast are available from here.

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About the International Accounting Standards Board

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. Board 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.