

5 March 2011

International Accounting Standards Board
(IASB)

Dear Sir/Madam,

Response to Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*

1. I thank the IASB for the opportunity to comment on the aforementioned supplementary document. Before I proceed to articulate my views on this supplementary document, I would like to emphasise upfront that the comments that are expressed herein are solely my *personal views* and strictly do *not* reflect those of any organisation to which I may be associated presently and/or previously in various capacities.

2. I note that the proposals in this supplementary document are an attempt on the part of the IASB and the FASB (hereinafter “the Boards”) to reach a converged solution for the impairment of financial assets that are managed on an open portfolio basis. I further observe that the proposals are a hybrid between the two different impairment models that were developed separately by the Boards. Notwithstanding the common imperative of transitioning from an incurred loss to an expected loss impairment approach, the Boards were motivated by somewhat different principal considerations when they developed their original impairment models separately. I see merits in the principal considerations that had separately shaped the Boards’ original impairment models. Taking cognisance of the strategic context of achieving a single high-quality global accounting standard for financial instruments, I think there are justifiable grounds in this instance for a “middle road” solution that could pave the way for converging the IFRS and the US GAAP in the contentious area of financial instruments impairment.

3. Together with the recent joint proposals on offsetting of financial instruments (ED/2011/1), I see promising potential in the common proposal articulated in this supplementary document. If the Boards could persevere along this common pathway for impairment of open portfolios and bring it to fruition, the Boards would be a step closer to the larger goal of achieving a single high-quality global accounting standard for financial instruments. For all the commendable efforts that have gone into the development of this proposed common solution, now is certainly not the time to revert to each Board’s original impairment models. In my view, doing so would clearly be antithetical to the public interest, if not insular. I therefore strongly advise the Boards to continue along the path of the proposed converged solution for the impairment of financial assets in open portfolios.

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4. The “big picture” aside, I would like to take this opportunity to express a few concerns on the specifics of the proposals in this supplementary document and the IASB’s Appendix Z:

- ***Potential impact of internal credit risk management policies on financial statement comparability*** – I note that the IASB had learned from its outreach activities that different entities adopt different criteria for transferring financial assets between the “good book” and the “bad book” (paragraph BC49). I am therefore concerned that the reliance on each entity’s internal credit risk management policy as the fundamental basis for differentiating the two books (paragraph B3) may vitiate the comparability of reported impairment numbers across different entities with financial assets managed on an open portfolio basis. I further believe that the extent of comparability loss would be further exacerbated by the wide diversity of internal credit risk management policies and practices across entities in different jurisdictions. As such, I strongly urge the Boards to consider and weigh the potential impact that variations in entities’ internal credit risk management policies would have on comparability. The Boards should perhaps consider field-testing to gather more objective evidence in this aspect;
- ***Potential increase in compliance burden*** – A notable downside of the hybrid impairment model is that it requires entities to develop two separate expected loss estimates in order to charge the higher amount as the impairment allowance for the “good book”. This inevitably adds to entities’ compliance burden. Further complexity could potentially arise if the jurisdiction-specific regulatory regime imposes a different set of parameters for estimating expected credit losses. As I suspect that the “floor” amount would come into play only in scenarios where the financial instruments concerned exhibit “an early loss pattern”, I urge the Boards to investigate the alternative proposition of invoking the “floor” notion only in circumstances where there is evidence of an early loss pattern to alleviate the compliance burden on entities; and
- ***Risk of putting the “cart before the horse” on presentation and disclosure issues*** – I do not think that now is an appropriate juncture for the IASB to be seeking constituents’ feedback on presentation and disclosure issues. In my view, it would probably be more productive and meaningful for both Boards to jointly (and if I may emphasise, *not* unilaterally) seek constituents’ views on presentation and disclosure issues after at least finalising the impairment accounting for all financial instruments. At that stage, the impairment accounting aspects would be more certain, and the interactions of the

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impairment impact of different types of financial instruments would be much clearer. Both the Boards and constituents will then be in a better position to consider the presentation and disclosure issues. I seriously question the wisdom of putting the “cart before the horse”, as I see a high likelihood of the Boards having to redeliberate what the IASB presently sees as appropriate presentation and disclosures in the limited context of open portfolios.

5. My response to specific questions posed in the supplementary document can be found in the **Appendix** to this comment letter.

Yours faithfully,

LINUS LOW

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Appendix

Question	Comments
<p>Question 1</p> <p>Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?</p>	<p>I think the new impairment approach proposed in this supplementary document addresses the weakness of the existing incurred loss impairment model in IAS 39. From an analytical perspective, I agree with the Boards that the new impairment approach should provide more timely recognition of expected credit losses for financial assets in open portfolios than the extant incurred impairment approach. The resulting impairment losses reported in the financial statements should therefore be more decision-useful for investors and other primary financial statement users.</p> <p>I note that the proposals in this supplementary document represent an attempt on the part of both Boards to reach a converged solution for the impairment of financial assets that are managed on an open portfolio basis.</p> <p>I further observe that the proposals are a hybrid between the two different impairment models that were developed separately by the Boards. Notwithstanding the common imperative of transitioning from an incurred loss to an expected loss impairment approach, the Boards were motivated by somewhat different principal considerations when they developed their original impairment models separately. While the IASB was primarily concerned with</p>

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	<p>reflecting the relationship between the pricing of financial assets and expected credit losses, the FASB focused more on ensuring the adequacy of the impairment allowance to cover all estimated credit losses over the financial instrument’s remaining life.</p> <p>I see merits in both principal considerations that had separately shaped the Boards’ original impairment models. On the one hand, I see conceptual consistency in the IASB’s motivation of reflecting the economics of lending transactions with the “faithful representation” qualitative characteristic of useful financial information articulated in its partially revised Conceptual Framework (2010). On the other hand, I see “down-to-earth” pragmatic value in the FASB’s emphasis on the adequate provision of impairment allowance to cover all future “foreseeable” credit losses over the outstanding life of the financial asset.</p> <p>While I generally do not advocate compromises in the context of principle-based standard-setting, I think there are justifiable grounds in this instance to permit a “middle road” solution that could facilitate the convergence of the IFRS and US GAAP in the contentious area of financial instruments impairment.</p> <p>Together with the recent joint proposals on offsetting of financial instruments (ED/2011/1), this proposed common solution for the</p>

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	<p>impairment of financial assets in open portfolios should generate the much needed impetus for both Boards to continue to collaborate purposefully to realise the larger goal of achieving a single high-quality global accounting standard for financial instruments.</p>
<p>Question 2 Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?</p> <p>Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.</p>	<p>I note that this supplementary document tackles the impairment issue in the limited context of financial assets managed on an open portfolio basis. I further observe that, following from the earlier exposure and feedback received from constituents, the Boards have yet to redeliberate the issue of impairment for closed portfolios and other instruments. Thus, I do not think it is appropriate for the Boards to be asking constituents at this juncture whether the proposed impairment model for open portfolios can be extended to closed portfolios and other instruments.</p> <p>It is probably fair to say that financial assets in open portfolios constitute the most complex known scenario for impairment recognition and measurement of financial assets. However, it does not naturally follow that what is operational for a complex scenario would also be operational for a less complex situation. The Boards should first seriously redeliberate the impairment issue for closed portfolios and other instruments and formulate a more concrete common position, before seeking constituents' feedback on the</p>

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	matter.
<p>Question 3 Do you agree that for financial assets in the ‘good book’ it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?</p>	<p>The recognition of the impairment allowance for financial assets in the “good book” at the higher of the time-proportional expected credit losses and the credit losses expected over the foreseeable future period, represents a compromise solution that seeks to partially satisfy each Board’s original objective. As elaborated in my earlier response to Question 1, I see merits in both Boards’ original objectives, and further believe that there are justifiable grounds in this instance to permit a “middle road” solution that could facilitate the convergence of the IFRS and US GAAP in the contentious area of financial instruments impairment.</p> <p>Consistent with the above position, I support the proposed approach for recognising the impairment allowance for financial assets in the “good book” at the conceptual level.</p>
<p>Question 4 Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?</p>	<p>A downside of the hybrid impairment model is that it requires entities to develop two separate expected loss estimates in order to charge the higher amount as the impairment allowance for the “good book”.</p>

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	<p>From an implementation perspective, this inevitably adds to entities' compliance burden. Further complexity could potentially arise if the jurisdiction-specific regulatory regime imposes a different set of parameters for estimating expected credit losses. However, I believe that the proposed approach remains operational. Nevertheless, I think it could be simplified further to alleviate the implementation burden (see my comments to Question 9).</p>
<p>Question 5 Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?</p>	<p>Per my response to Question 3, I support the proposed approach for the recognition of the impairment allowance for financial assets in the "good" book. Accordingly, it is my opinion that the resulting impairment allowance numbers would be decision-useful for investors and other primary financial statement users. However, the decision-usefulness of the information could be further enhanced if the impairment allowance numbers are supplemented by disclosures that clearly explain the underlying assumptions and show the computations in a tabular format.</p>

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<p>Question 6</p> <p>Is the requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?</p>	<p>I have no issues with the wording of the requirement to differentiate between the “good book” and the “bad book”. However, I have some concerns with regard to comparability, which I will elaborate further in my response to Question 8.</p>
<p>Question 7</p> <p>Is the requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?</p>	<p>I understand that the notions of the “good book” and the “bad book” arose from the advice of the Expert Advisory Panel (EAP) and the feedback that the IASB gathered from its outreach activities. To the extent that this is reflective of the manner in which many entities (particularly the financial institutions) manage their credit risks in practice, I would think that the requirement to differentiate between the “good book” and the “bad book” should be operational for these entities.</p> <p>For those entities who do not currently practise the “two books” credit risk management approach, significant changes would probably have to be made to their credit risk management and accounting systems. Notwithstanding the costs involved, I do not see operability as an issue for such entities.</p> <p>I leave it to constituents from the audit community to comment on the audibility of the requirement to separate financial assets into</p>

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	<p>the “good book” and the “bad book”. As I see it, the proper documentation of credit risk management policies and processes is key to auditability, given that the financial statement audit is inherently an evidence-gathering exercise.</p>
<p>Question 8 Do you agree with the proposed requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?</p>	<p>To the extent that this is reflective of the manner in which many entities (particularly the financial institutions) manage their credit risks in practice, the “two books” approach directly links the new impairment approach to the entity’s risk management approach. Conceptually, this is consistent with the overall philosophy that the IASB has adopted in the recent ED on Hedge Accounting (vide ED/2010/13) and the “business model” notion in IFRS 9.</p> <p>However, I note from paragraph BC49 that the IASB had also learned from its outreach activities that different entities adopt different criteria for transferring financial assets between the two books. I am therefore concerned that differentiating the two groups on the basis of each entity’s internal credit risk management policy (paragraph B3) may vitiate the comparability of reported impairment numbers across different entities with financial assets managed on an open portfolio basis. The extent of comparability loss would be further exacerbated by the wide diversity of internal credit risk management policies and practices across entities in different</p>

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	<p>jurisdictions.</p> <p>To be fair, I observe that the Boards have attempted to formulate a broad transfer principle in paragraphs 3 and B2 in terms of identifying the “critical point” in collectibility patterns when the entity switches from receiving debt payments to a recovery mode. While this transfer principle is helpful to a certain extent, my sense is that its application in practice will be predominantly driven by each entity’s internal credit risk management policy. The differences in the definitions of credit risk thresholds would inevitably result in different entities identifying the “critical point” differently for an open portfolio of financial assets with largely similar collectibility patterns. Those entities with more conservative credit risk thresholds could well trigger the transfer from the “good book” to the “bad book” sooner than those with less conservative credit risk thresholds.</p> <p>In view of the above, I strongly urge the Boards to consider and weigh the potential impact that variations in entities’ internal credit risk management policies would have on comparability. The Boards should perhaps consider field-testing to gather more objective evidence in this aspect.</p> <p>Instead of basing the differentiation between the two books on individual entities’ internal credit risk management policies, perhaps</p>

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	<p>it may be better to require transfer from the “good book” to the “bad book” to take place at the point the entity identifies the financial asset(s) as problematic. This would then ensure that these assets are transferred to the “bad book” sooner and not be deferred due to less conservative credit risk thresholds.</p> <p>Additionally, I see potential interpretation issues arising from the use of the word “doubtful” in the last sentence of paragraph B4. While I appreciate that the intention of this paragraph is to help those entities not presently practising the “two books” approach to operationalise the requirements, my view is that the term “doubtful” is susceptible to very different interpretations in different jurisdictions and could lead to practical inconsistencies.</p>
<p>Question 9 The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:</p> <p>(a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?</p> <p>(b) Alternatively, do you believe that an entity should be required to</p>	<p>(a) As I understand it, the proposed introduction of the “floor” for the “good book” impairment allowance was to address the FASB’s original intention of ensuring the adequacy of the impairment allowance to cover all estimated credit losses over the financial instrument’s remaining life. Per my response to</p>

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<p>invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?</p> <p>(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?</p> <p>(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?</p> <p>(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.</p> <p>(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognised under the ‘floor’</p>	<p>Question 1, I see “down-to-earth” pragmatic value in the FASB’s emphasis on the adequate provision of impairment allowance to cover all future “foreseeable” credit losses. Accordingly, I am broadly supportive of the notion of introducing a “floor”, subject to the following comments in part (b).</p> <p>(b) While I am generally agreeable to the “floor” concept, permit me to reiterate the point I raised in my response to Question 4. Specifically, the point is that this would impose additional compliance burden on entities, considering that they need to calculate two separate expected loss estimates to identify the higher amount as the chargeable impairment allowance. I suspect that the “floor” amount would come into play only in scenarios where the financial instruments concerned exhibit what the Boards term as “an early loss pattern”. As such, I tend to concur that requiring the “floor” concept to be invoked only in circumstances where there is evidence of an early loss pattern would significantly alleviate the attendant burden on preparers. However, to minimise inconsistencies in practice, the Boards will probably need to develop a clear definition of what is meant by “early loss pattern” and provide application guidance on how entities can identify a loss pattern of such a nature.</p>

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<p>requirement (for example, no more than three years after an entity’s reporting date)? If so, please provide data and/or reasons to support your response.</p>	<p>(c) If the “floor” concept is required to be invoked only in circumstances where there is evidence of “an early loss pattern” [vide the suggestion in part (b) above], then the debatable issue of defining what is meant by the “foreseeable future” would only arise in the context of open portfolios of such a nature.</p> <p>I tend to agree with the Boards’ broad definition of the “foreseeable future” in paragraph B11. Like it or not, it is inevitable that the forecasting horizon underpinning the “foreseeable future” would be primarily driven by each individual entity’s ability to develop reasonable expected loss projections based on all available information and supportable assumptions.</p> <p>A likely consequence is that entities with more advanced credit risk management systems would probably be able to develop expected loss projections over a longer forecasting horizon than their less sophisticated peers, resulting in the recognition of larger impairment allowances (assuming that the “floor” amounts exceeded the time-proportional amounts). For financial statement users, this would ensue in some loss of comparability of the reported impairment numbers. However, I do not see this as a major problem, considering that financial</p>

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	<p>reporting is essentially based on management’s best estimates and users owe it to themselves to exercise discretion on how much reliance to attach to those numbers in their economic decision-making.</p> <p>On a related note, I would suggest that the Boards consider making the proposed presumption that the “foreseeable future” should generally entail a period of at least twelve months a “rebuttable” presumption (vide paragraph B16). As a matter of high-level principle, I would generally advise against imposing prescriptive conditions in terms of specific time periods or time bands in the IFRSs, as this would be more rule-based than principle-based. That said, I have no objections if those “time-bound” provisions are expressed in the form of “rebuttable” presumptions for the purpose of providing practical guidance to preparers.</p> <p>(d) In my opinion, the forecasting horizon would generally be sensitive to changes in economic conditions, particularly in times of economic turbulence or deep recessions. However, as per my suggestion in part (c) above, making the proposed presumption in paragraph B16 “rebuttable” would have the benefit of generality in that it caters for exceptional macroeconomic circumstances where extreme uncertainties</p>

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	<p>preclude entities from forecasting over a period of at least twelve months. In such exceptional situations, there should be sufficient disclosures in the financial statements to inform users of the significant changes in the entity’s forecasting assumptions.</p> <p>(e) I have no specific data to provide. However, allow me to take this opportunity to articulate my conceptual view that a robust principle-based standard should embrace sufficient generality so as to be applicable to a wide range of plausible entity-specific, jurisdiction-specific and/or economic circumstances. I advise the Boards to balance what is “typical” with the need for generality, and to bear in mind that the “typical” could well be biased by a lack of statistically robust data because of limited feedback and information provided by constituents. I suspect that commercial confidentiality could prevent many entities from revealing entity-specific data, given that all comment letters are openly published.</p> <p>(f) I do not support the imposition of a “ceiling” to the proposed definition of “foreseeable future” for the purpose of estimating the “floor” quantum of expected losses. While stipulating a “bright line” condition to restrict the forecasting horizon to not more than X years from the reporting date (say) could minimise</p>

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	<p>comparability issues to some extent, I think it would be highly arbitrary and incongruent with a principle-based approach. Furthermore, it could unintentionally hinder entities from providing “higher-quality” expected loss estimates, when they possess the requisite expertise, sophistication and credit risk management systems to forecast expected losses over a longer period.</p>
<p>Question 10 Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.</p>	<p>In my opinion, field-testing would probably provide a more useful indication of the effects of the “floor” on the calculation of the impairment allowance relating to the open portfolios under the “good book” classification.</p> <p>However, per my response to Question 9(b), on an a priori basis, I suspect that the “floor” amount would generally come in higher than the time-proportional amount in scenarios where the financial instruments concerned exhibit what the Boards term as “an early loss pattern”. The academic research community may be able to develop mathematical or statistical models to test this proposition analytically and empirically.</p>

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<p>Question 11</p> <p>The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:</p> <p>(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?</p> <p>(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?</p>	<p>(a) I note from the caveat in paragraph B8 that the proposal to give entities the option to choose either a discounted or undiscounted estimate under the straight-line approach for estimating the time-proportional expected credit losses was reached by the IASB unilaterally. I also understand from paragraph BC41 that the IASB “...had yet to redeliberate the measurement of impairment”.</p> <p>I therefore think that it is inappropriate for the IASB to be asking constituents at this juncture for feedback on an issue that it has not internally revisited, much less considered jointly with the FASB. I strongly urge the Boards to re-expose this issue for public comment after they have jointly considered the impairment measurement issue at the holistic level.</p> <p>(b) As I see it, the discount rate issue is integral to the larger issue of impairment measurement. Please see my comments in part (a).</p>

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<p>Question 12</p> <p>Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (ie to recognise expected credit losses over the life of the assets)? Why or why not?</p>	<p>Consistent with my response to Question 1, I strongly urge both Boards to continue along the path of the proposed converged solution for the impairment of financial assets in open portfolios.</p>
<p>Question 13</p> <p>Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?</p>	<p>As stated in my comments to Question 1, I see merits in both the principal considerations that had separately shaped the Boards’ original impairment models. On the one hand, I see conceptual consistency in the IASB’s motivation of reflecting the economics of lending transactions with the “faithful representation” qualitative characteristic of useful financial information articulated in its partially revised Conceptual Framework (2010). On the other hand, I see “down-to-earth” pragmatic value in the FASB’s emphasis on the adequate provision of impairment allowance to cover all future “foreseeable” credit losses over the outstanding life of the financial asset.</p> <p>Taking cognisance of the strategic context of achieving a single high-quality global accounting standard for financial instruments, I think there are justifiable grounds in this instance for a “middle road” solution that could pave the way for converging the IFRS and US GAAP in the contentious area of financial instruments impairment.</p>

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	<p>Together with the recent joint proposals on offsetting of financial instruments (ED/2011/1), I see promising potential in the common proposal articulated in this supplementary document. If the Boards could persevere along this common pathway for impairment of open portfolios and bring it to fruition, the Boards would be a step closer to the larger goal of achieving a single high-quality global accounting standard for financial instruments.</p> <p>For all the commendable efforts that have gone into the development of this proposed common solution, now is certainly not the time to revert to each Board’s original impairment models. In my view, doing so would clearly be antithetical to the public interest, if not insular.</p>
<p>Question 14Z Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?</p>	<p>I support the IASB’s decision to “decouple” the computation of the effective interest rate and the consideration of the expected losses.</p> <p>From a purely theoretical perspective, I would say that the “integrated effective interest rate” approach proposed in the IASB’s original impairment ED is conceptually superior to the revised “decoupled” approach.</p> <p>However, I note that there are practical concerns with regard to its</p>

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	<p>implementation, and that the IASB had been persuaded by these concerns to simplify it in an operational sense. I further understand from paragraph BC35 that the revised “decoupled” approach was counter-proposed by the EAP as a more operationally “friendly” approach with largely similar outcomes. In view of these factors, I think it is a sensible decision on the part of the IASB to shift to the “decoupled” approach.</p>
<p>Question 15Z Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?</p>	<p>Consistent with my comments to Question 2, I do not think it is appropriate for the IASB to be asking constituents at this juncture whether the proposed impairment model for open portfolios can be extended to all loan commitments that are not accounted for at fair value through profit or loss.</p>
<p>Question 16Z Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?</p>	<p>I observe that constituents had already informed the IASB of the pragmatic desirability of aligning the impairment model for all types of credit exposures (regardless of loans or loan commitments) because these are often managed using the same business model and information systems. I therefore believe that, as a responsive standard-setter, the IASB should deliberate on the applicability of the impairment proposals contained in this supplementary document, state and justify its position on the matter before seeking another round of constituents’ feedback. If the IASB requires more “ground</p>

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Response to Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*

Question	Comments
	<p>intelligence” to arrive at its position, then it should perform field-testing with a selected group of constituents.</p> <p>Moreover, constituents (see my comment letter to ED/2010/8 dated 6 November 2010) had also already given the IASB our feedback on the scope issue concerning financial guarantee contracts. The IASB should review the feedback and decide on where financial guarantee contracts should be “positioned” within the IFRSs.</p>
<p>Question 17Z Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?</p>	<p>Similar to my comments to Questions 15Z and 16Z, I also do not think the present juncture is the appropriate time for the IASB to be seeking constituents’ inputs on presentation issues on a piecemeal basis.</p> <p>In my view, it would probably be more productive and meaningful for both Boards to jointly seek constituents’ views on presentation issues after at least finalising the impairment accounting for all financial instruments. At that stage, the impairment accounting aspects would be more certain, and the interactions of the impairment impact of different types of financial instruments would be much clearer. Both the Boards and constituents will then be in a better position to consider the presentation issues.</p>

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Question	Comments
	<p>However, I note that the IASB’s proposed presentation in paragraph Z5 is broadly aligned with the prevailing practice of many financial institutions, under which interest revenues and impairment losses are generally regarded as key performance indicators.</p>
<p>Question 18Z</p> <p>(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?</p> <p>(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?</p>	<p>For very much the same reasons expressed in my comments to Question 17Z on presentation issues, I am also of the view that now is hardly the right juncture for the IASB to be seeking constituents’ feedback on disclosure matters. As I see it, the Boards should at least jointly (and if I may emphasise, <i>not</i> unilaterally) finalise the impairment accounting for all financial instruments before soliciting constituents’ views on disclosure-related proposals.</p> <p>I seriously question the wisdom of putting the “cart before the horse”, as I see a high likelihood of the Boards having to redeliberate what the IASB presently sees as appropriate disclosures in the limited context of open portfolios.</p> <p>For instance, the proposed disclosures in paragraph Z13 may be rendered less relevant if the Boards decide to differentiate the “good book” and the “bad book” on a basis other than the internal credit risk management policies of individual entities. As I have argued in my response to Question 8, significant comparability issues are</p>

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Question	Comments
	<p>likely to arise because of the wide disparity of internal credit risk management policies and practices of entities across different jurisdictions. It may well be the case that other constituents share my sentiments.</p> <p>Allow me to also reiterate the same concerns that I had earlier raised in my recent comment letter to ED/2011/1 dated 11 February 2011. In my response to Question 4 of that ED, I had expressed my reservations as to whether the Boards have adequately considered the “big picture” in terms of the volume and interaction of the extensive disclosure requirements that have been proposed in the various EDs under the project to overhaul financial instruments accounting. As I see it, there is a serious risk of “disclosure creep” threatening to impose excessive preparation costs on preparers and creating “information overload” for financial statement users. As such, I strongly urge the Boards to jointly initiate a holistic cost-benefit analysis to streamline and optimise the disclosure model for the revamped financial instruments accounting standard.</p> <p>Further to my earlier comment letters to ED/2010/6 dated 16 August 2010, ED/2010/9 dated 16 September 2010, ED/2010/8 dated 6 November 2010, ED/2010/13 dated 27 January 2011 and ED/2011/1 dated 11 February 2011, I again urge the IASB (preferably in collaboration with the FASB) to consider adopting a more holistic</p>

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Question	Comments
	<p>approach to principle-based disclosures through the development of a Disclosure Framework. The present absence of a Disclosure Framework has resulted in the IFRS disclosure requirements being developed on a standard-by-standard basis, without reference to a unifying set of principles espousing disclosure objectives and the extent to which disclosures should support the numbers reported in the financial statements. I hope to see the IASB and the FASB introducing a new joint project to develop a Disclosure Framework for Financial Reporting in both Boards' future technical agendas.</p> <p>At a cursory glance, I noticed that the IASB has - in paragraph Z8 - imposed a requirement to disclose a list of information over a prescribed period of five annual fiscal years. I would advise against the rigid prescription of specific time periods for disclosures. I think this is inconsistent with a principle-based disclosure approach. As a point of reference, I think the existing IFRS 7 paragraph B11 requirement permitting preparers to exercise judgement in determining the appropriate time-bands for a liquidity risk maturity analysis of financial liabilities is more aligned with a principle-based disclosure approach. My view is that the same principle that allows preparers to exercise judgement should be analogously applied to the present impairment context for consistency.</p>

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Question	Comments
<p>Question 19Z</p> <p>Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?</p>	<p>Conceptually, I think that, in the event of a change in credit management objectives, it is appropriate to transfer an impairment allowance from one book to another based on the weighted average age and life of the transferred financial asset.</p> <p>However, as a general observation, I note that in developing estimates of the weighted average age and life of the transferred financial asset, entities would need to also take into consideration prepayment options, call options, extension options and the like. Thus, computing the weighted average age and life of the transferred financial asset is not as straightforward as merely looking at contractual maturities and/or terms. This is a direct consequence of the “time-proportional” allocation mechanism proposed in paragraph 2(a)(i). To ensure consistency in practice, I suggest that the Boards consider developing application guidance on how options should be factored into the weighted average age and life computations.</p>

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