



## **International Association of Consultants, Valuators and Analysts**

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1 April 2011

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
Submitted to [director@fasb.org](mailto:director@fasb.org)

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the IFRS Committee of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters, issued or pending, in Canada, China, Egypt, Germany, Ghana, India, Indonesia, Jordan, Kuwait, Lebanon, Mexico, Nigeria, Philippines, Russia, Saudi Arabia, South Korea, Taiwan, Thailand, United Arab Emirates, United States (National Association of Certified Valuation Analysts – NACVA and the Institute of Business Appraisers – IBA) and Vietnam. The organization has nearly 10,000 members, who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, our members are extremely concerned with the development of the valuation provision in International Financial Reporting Standards (IFRS), as well as Generally Accepted Accounting Principles in the United States (GAAP). They are especially worried by the trend in the convergence activities that seems to result in IFRS moving towards GAAP rather than the process correcting the many practical deficiencies and complexities of the recent codification, especially its excessive rules.

We appreciate the opportunity to comment on the Exposure Draft “*Financial Instruments: Impairment*”. In general, the Committee is pleased with the proposals in the ED but we feel that it is still too restrictive.

Our detailed observations to the questions in this ED are as follows:

**Question 1**

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?

We believe that the new proposals are an improvement in that a provision for losses will be required from the inception of an open portfolio. Therefore we are satisfied that it deals with the perceived weakness.

**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?

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.

We see no reason why the provisions of Clause 2 should not be equally applicable to closed portfolios and to assets measured at amortized cost. In our view, it is essential that there be a single, impairment process for all financial assets. However, we believe the Board should also consider the provisions of IAS 36 *Impairment of Assets* using the provision of Clause 2 as the basis of Value in Use.

**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?

We believe that the separation into Good and Bad books reflects in general how financial institutes operate and that for the books the provision of Clause 2 are reasonable.

**Question 4**

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

In general, accounting systems can handle time allotment of standard charges without too much difficulty. Therefore we consider the proposal to be reasonably operational

**Question 5**

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Investors are concerned with a lender's risk management and its ability to get its money back "nearly every time". As long as the net write-offs are within expected limits, the proposed approach, which would accelerate recognition of losses, will give useful information.

**Question 6**

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?

We believe that the differences between the good and bad books are already well described.

**Question 7**

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?

As the separation would reflect the entity's internal risk management procedure we believe it could be operational and auditable. Risk management activities procedures are an important part of the initial credit granting process and are currently reviewed by the auditors.

**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?

We concur with the proposed requirements.

**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:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

We agree with the need for a floor and consider the minimum of "no less than twelve months" to be reasonable.

(b) Alternatively, do you believe that an entity should be required to 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?

Based on the concept of "better safe than sorry", we concur with a floor.

(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?

As set out in our response to item (a), the no less than twelve month period seems reasonable.

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

We see no reason for a reduction in initial loss estimates considered in pricing the loans but under certain circumstances, a longer period than twelve months might be appropriate.

(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.

We see no reason under present circumstances for it to be longer but see answer (d).

(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' 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.

We see no reason to change the proposal.

#### **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.

We have no evidence one way or the other.

#### **Question 11**

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(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?

We suggest no discounting for the provisions as this would improve compatibility and reduce operational complexity.

(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?

As we consider no discounting should be allowed the choice of rate is irrelevant.

#### **Question 12**

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?

We support the consensus approach as, in our view, convergence is absolutely essential.

#### **Question 13**

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?

In general, we prefer the FASB approach over that of IASB but support the consensus approach as, in our view, convergence is absolutely essential.

**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?

As most lenders make loans based on credit scores and handle the provisions for losses through their risk management procedures, the integration would involve undue operational complexity.

**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?

Until a loan committed, which normally contains an adverse development clause, is completed there can be no losses. Therefore, we consider there should not be mandatory impairment provision against them, unless by their terms an initial loss may be expected such as due to below market interest rates.

**Question 16Z**

Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

As loans and loan commitments are handled together, we believe that the proposals are operational for them. We respect to loan guarantees, we consider them a form of insurance and that they should be treated as such.

**Question 17Z**

Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

We prefer the new presentation and do not consider the additional information available in IASB's original proposal to be of sufficient benefit to justify the cost and complexity.

**Question 18Z**

(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

We accept the proposed disclosure requirements.

(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

None.

**Question 19Z**

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?

We agree that an appropriate amount of the related allowance should accompany any asset transferred between the good and bad books but do not believe it is necessarily time related due to the floor provision.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of the IFRS Committee of IACVA  
Per

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CFE  
Chair