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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

E-mail: commentletters@iasb.org

Dear Sir,

Comments on Exposure Draft – Supplement Financial Instruments: Impairment

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s Exposure Draft – Financial instruments impairment.

Our comments on the questions on the exposure draft 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?

Comment

We agree that the proposed approach in this supplementary document addresses the weakness of the existing incurred loss impairment model in IAS 39. The proposal has taken proactive approach which is more useful to the users of financial statements than reactive approach.

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.

Comment

Yes, the impairment model proposed in the supplementary document is at least as operational for closed portfolios and other instruments as it is for open portfolios. There is no need for multiple impairment models as this will still complicate the accounting for financial Instruments.

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?

Comment

We agree with the proposal, in order to cover for the expected losses that may arise in the earlier part of the financial asset.

Question 4

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

Comment

We believe that the approach is operational, though the annuity method is still complicated against the background of the Board in trying to simply the accounting for financial instruments.

Question 5

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

Comment

We believe that the proposed approach would provide useful information for decision making as it recognizes credit losses over time.

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?

Comment

Yes, the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance is clearly described. However, comparability might be an issue given that management uses risk approaches to determine which is 'good' and 'bad'.

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?

Comment

The requirement to differentiate between the two groups for the purpose of determining the impairment allowance is operational and auditable, as long as judgments/estimates used by management are applied consistently and well disclosed.

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?

Comment

We agree with the proposal, because the focus of users for the 'good book' and 'bad book' is different.

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?

(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?

(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?

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

(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.

(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.

Comments

a) We agree with the proposal to require a floor for impairment allowance related to 'good book' in order to cover for the expected losses that may arise in the earlier part of the financial asset.

b) No, this has to be there at all times

c) We do agree that it should be determined on the basis of losses expected to occur within the foreseeable future.

d) No. the period of foreseeable future should not be dependent on the changes in the economic conditions. Time based approach is appropriate for comparative basis.

e) No, we believe this should not be more than the proposed 12 months period.

f) We believe the 12 months period is okey for comparability purposes as stated in (d) above.

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.

Comment

We believe the floor will depend on the nature of the financial assets in the portfolio.

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?

(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?

Comments

a) We do not agree with discounting. We believe the undiscounted credit losses estimates is simpler to apply.

b) We do not agree with proposal. We believe in the undiscounted expected loss estimate.

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?

Comment

For convergence purposes, we would prefer the common proposed approach in this document.

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?

Comment

We have the same comment as in 12 above.

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?

Comment

We agree that the effective interest rate should be separate from the consideration of expected losses.

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?

Comment

We believe that the use of the same impairment principles would be good for all standards, but we are not sure how well these principles would be applicable to the other standards. Further guidance might need to be given by the board.

Question 16Z

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

Comment

We have concerns on the operational effectiveness of these principles as mentioned in 15Z above.

Question 17Z

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

Comment

We do agree that the proposed presentation requirements are appropriate, as it will give more information to the users of financial statements.

Question 18Z

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

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

Comments

a) The proposed disclosure requirement will provide more information. However, certain proposal disclosure requirements are going to complicate disclosures, for instance the need to provide five year table of impairment allowance (Z8).

b) None other than simplification of the ones proposed.

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?

Comment

We 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 in order to make reconciliations much easier.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi
Technical and Standards Manager