



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

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1 April 2011

Financial Instruments: Impairment

Dear Sir David

The Committee welcomes the opportunity to comment on the IASB's *Impairment* supplement to the November 2009 Exposure Draft (ED) *Financial Instruments: Amortised Cost and Impairment*. The Committee has a strong interest in high quality financial reporting by banking organisations. We encourage both the IASB and the FASB to continue developing a single set of high quality accounting requirements that would be beneficial to supervisors, investors and other users across the globe. Our interest is consistent with the April 2009 call by the G20 Leaders for "accounting standard setters to work urgently with supervisors to [...] achieve a single set of high-quality global accounting standards"¹ as an action to strengthen financial supervision and regulation.

We welcome the initiative of the IASB and FASB² to work together to achieve a high-quality converged accounting standard for financial instruments. In particular, the move toward a converged expected credit loss (EL) approach for *Impairment* will improve the decision usefulness and relevance of financial reporting for users, including prudential regulators. The Committee supports the common solution proposed by the IASB and FASB in this ED, in line with the G20 recommendations. We strongly encourage both the IASB and FASB to make similar progress with other aspects of accounting for financial instruments as this would ensure a level playing field across the globe.

We believe the objectives set out by the IASB and FASB are complementary in nature and need to be jointly and equally emphasised. Emphasising both objectives also would achieve greater alignment with the goals of provisioning set forth by the Group of Central Bank Governors and Heads of Supervision (GHOS), which is the Committee's governing body. The 11 January 2010 GHOS press release stated,

¹ G20 Communiqué, Declaration on strengthening the financial system, London, 2 April 2009 – http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf.

² The term "Boards" is used to jointly refer to the IASB and FASB.

“It is essential that accounting standards setters and supervisors develop a truly robust provisioning approach based on expected losses. Building on the Basel Committee’s August 2009 Guiding Principles for the replacement of IAS 39, a sound EL provisioning approach should achieve the following key objectives: 1) address the deficiencies of the incurred loss approach without introducing an expansion of fair value accounting, 2) promote adequate and more forward looking provisioning through early identification and recognition of credit losses in a consistent and robust manner, 3) address concerns about procyclicality under the current incurred loss provisioning model, 4) incorporate a broader range of credit information, both quantitative and qualitative, 5) draw from banks’ risk management and capital adequacy systems and 6) be transparent and subject to appropriate internal and external validation by auditors, supervisors and other constituents. So-called “through-the-cycle” approaches that are consistent with these principles and which promote the build up of provisions when credit exposures are taken on in good times that can be used in a downturn would be recognised.”

The original IASB ED on impairment emphasised the Income Statement as it looked to reflect the economic reality of lending by recognising interest revenue as a credit cost adjusted return (or yield), which eliminated the front-loading of interest revenue in closed portfolios. The *Impairment* supplement maintains this objective with open portfolios. The Committee considers that focusing solely on achieving this objective is incomplete.³ The Committee also recognises the need to build up adequate levels of provisions on the balance sheet to absorb all credit losses when they occur to address the too-little-too-late problem associated with the incurred loss model. Not reflecting an adequate level of an allowance on the balance sheet could result in overstating the related asset balances as well as the yield on those assets in any given year in the Income Statement. This could be potentially misleading to investors, users, and other market participants, while also raising safety and soundness concerns for prudential supervisors.

We also accept that some of the operational challenges with applying the EL model in the original impairment ED to open portfolios could be overcome by adopting the “decoupling” solution that was discussed at the Expert Advisory Panel (EAP).⁴ Additionally, the Committee believes that the final standard should have reasonable transition arrangements and implementation dates.⁵

Our responses to some of the specific questions outlined in the *Impairment* supplement are set out in the Appendix below. We trust you find these comments helpful.

³ Questions 1 and 2 in the Committee’s 30 June 2010 *Impairment* comment letter made a similar remark.

⁴ The Committee acknowledges that “decoupling” forms part of the IASB-only Appendix Z on Presentation and Disclosure in the *Impairment* supplement. Some aspects of presentation and disclosure have yet to be deliberated by the FASB.

⁵ Please also see our 30 June comment letter on *Financial Instruments: Amortised Cost and Impairment* Questions 8 and 9.

These comments have been prepared by several groups within the Committee that are chaired or co-chaired by Sylvie Mathérat, Deputy Director General at the Banque of France, and Jerry Edwards, Senior Advisor, Basel Committee Accounting Task Force. If you have any questions regarding our comments, please feel free to contact Sylvie Mathérat (+33 1 4292 6579), Jerry Edwards, (+41 61 280 8055), or Rob Sharma at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Nout Wellink', is centered on the page. The signature is fluid and cursive, with a large initial 'N'.

Nout Wellink

cc: Ms Leslie F Seidman, Chair, FASB

Appendix: Responses to specific questions

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 the ED as currently proposed takes steps toward addressing an important weakness that has been identified with respect to the current impairment models under IFRS, which is delayed recognition of credit losses associated with financial assets (ie the too-little-too-late problem). The Committee welcomes the approach in the *Impairment* supplement as it could promote more forward-looking provisioning; incorporate a broader range of relevant credit information; draw from banks' risk management and capital adequacy frameworks; be transparent and be subject to appropriate internal and external validation. While we understand and appreciate that the IASB may be testing this model during the comment period with some Expert Advisory Panel members, we would recommend that there be a post implementation review 2 years after the effective date of this standard to ensure there are no unintended consequences. Finally, the Committee believes there need to be clear and precise criteria for transferring loans between the two books, ie the "good book" and the "bad book", to avoid opportunities for earnings management and promote consistency and comparability across financial institutions. The criteria for transferring loans between the two books should be consistent with the Basel Framework, including its risk management aspects.⁶

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.

The Committee believes that the model proposed is operational for closed and open loan portfolios and potentially for other financial instruments. Our preference is for an approach that capitalises on the Basel Framework and its related risk management aspects to the greatest extent possible. The Committee also makes some other comments below in the context of open portfolios.

We believe a single impairment approach for all amortised cost financial assets would be the right way forward with a view to reducing the current complexity of impairment requirements. We would note that the current proposal does not set out how lifetime expected losses should be calculated, for example, whether they should be calculated using a probability-

⁶ The Basel Framework refers to the Committee's June 2006 *International Convergence of Capital Measurement and Capital Standards* (Basel II Accord), which is available at: <http://www.bis.org/publ/bcbs128.htm>.

weighted or best estimate approach,⁷ and how, for instance, loan prepayments and extensions should be dealt with under the model. We believe any new standard should include adequate guidance on these issues and the guidance should be operational for the full range of financial institutions.

Application to debt securities

The Committee believes that the impairment model that is being proposed has potential application to debt securities, including those managed on an individual and a portfolio basis. We would encourage additional research and outreach in this area. This is because not many institutions underwrite debt securities in the same way they underwrite loans. Typically, institutions do not engage directly with the issuers of debt securities on an ongoing basis so they will not have access to information about credit quality for debt securities to the same extent as for loans.

Application to individual large loans and portfolios of loans

The Committee would like to reiterate its position from its 30 June 2010 comment letter on the original impairment ED, that an EL-based approach could apply to individual loans and portfolios of loans. The Committee believes that the inclusion of guidance relating to impairment measurement for individually reviewed loans would enhance the final standard.

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?

Question 4

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

Question 5

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

Selected responses:

Response for Question 3: We believe that it is appropriate to recognise in the "good book", expected credit losses on a portfolio basis over the remaining life of the portfolio while ensuring that the overall balance of the provisions for the "good" and "bad" books taken together is sufficient to absorb credit losses on all financial assets reported at amortised cost. When applying this measurement principle, we see the need for banks to use all available information (incorporating a broader range of credit information, both quantitative and qualitative, than under the current incurred loss model) to develop its estimate of expected credit losses for the remaining life or within the foreseeable future, as applicable. When combined with a clear definition of EL, along with clarity around the mechanics of the "bad

⁷ The Committee's EL Proposal, as outlined on page 4 of its 30 June 2010 comment letter to the IASB, supported an approach that is based on best estimates of expected credit losses built over the life of the loan at the balance sheet date. This approach avoided the complexity of probability-weighted cash flows as set out in the IASB's original impairment ED.

book” in the final standard, the proposed approach would be more likely to result in adequate and more forward looking provisioning through early identification and recognition of credit losses in a consistent and robust manner.⁸

Response for Question 4: The Committee supports the time-proportional method as one way to ensure the sufficiency of the allowance balance. The Committee also recognises paragraph B7 would allow banks to use long term average loss rates beyond the period where specific projections of events and conditions can be reasonably developed.

While we believe the time-proportional method can be operational, we note that a practical expedient may be needed for small banks or across some loan portfolios. Small banks or loan portfolio product types that have losses emerging in earlier years should be allowed to extend the simplification offered in paragraph B7 to a shorter time period such as the “foreseeable future” in those cases when the “foreseeable future” amount is likely to be higher than the time-proportional allocation amount.⁹ In circumstances when it is known that this “foreseeable future” amount is likely to be higher when using this simplification, banks should be allowed to perform this calculation directly without necessarily performing the time-proportional calculation.¹⁰

Response to Question 5: The Committee recognises that the information produced by the proposed impairment model is potentially more relevant than information currently required under IAS 39. This information is more relevant because the proposed impairment model better matches interest revenue with impairment losses, is more forward-looking and is based on a broader range of credit information.

However, the impairment information presented in the financial statements will become much more judgmental, as management will need to estimate lifetime expected losses. As a result, clear and transparent disclosures about the assumptions and inputs used by management to arrive at its estimates will be essential for a proper understanding of the outcomes of the impairment model (refer to the responses to Questions 17Z and 18Z).

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?

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?

⁸ This is consistent with point 2) in the 11 January 2010 GHOS statement.

⁹ Also refer to the responses to Questions 11 and 12 in the Committee’s 30 June 2010 comment letter on the original impairment ED.

¹⁰ Under this practical expedient, the expected loss amount would be calculated as the Account Balance X Loss Rate measured over a time period such as the foreseeable future.

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?

Overarching Issues

When applying the IASB and FASB's common impairment solution that differentiates credit loss recognition based upon a "good" and "bad" book distinction, the Committee believes that the overall balance of the provisions for the "good" and "bad" books taken together should be sufficient to absorb credit losses on all financial assets reported at amortised cost. Provisions already built up in the "good book" and the "bad book" are related, so it is important to perform this overall assessment. When applying this principle, careful attention also needs to be given to the "unit of account" (ie the appropriate level at which to define the portfolio for calculating expected loss), as this could affect the adequacy of the allowance.

Furthermore, transfers of financial assets from the "good book" to the "bad book" in accordance with an entity's internal credit risk management system could be based upon several indicators, thereby capitalising on the Basel capital framework and related risk management processes. This could involve drawing on the borrowers' status as performing, non-performing¹¹ or defaulted, and their deterioration within an internal credit risk grading system (eg, to "watch list" status or similar status indicating heightened credit risk management attention, in a manner consistent with the IASB's final definition of the "bad book").¹²

Finally the Committee believes there should be robust governance and controls over banks' provisioning processes including the banks' determination of the "good book" versus "bad book" components.

Response for Question 6: We find the requirement to differentiate between the two groups of loans (ie "good book" and "bad book" loans) that are explained in the ED to be clearly described. We support the reliance placed upon credit risk management systems to identify each group of loans. However, in order to overcome challenges with the degree of comparability, we encourage the Boards to develop guidance including criteria and indicators for the types of loans that should be placed into the "bad book".¹³ We would not expect that riskier loans should have a different standard for being moved into the "bad book" than less risky loans simply because the riskier loans involve a higher interest rate to reflect higher credit risk at inception. In addition, we recognise that loans can move between both books if

¹¹ Banks could benefit from differentiating between performing and non-performing loans when using a portfolio approach in view of the potentially significant differences in loss expectations. Non-performing loans are currently treated differently from performing loans within banks' internal risk management and Basel II capital systems.

¹² For example, paragraph B3 of the ED could be refined by drawing on existing language in IAS 39.59 such as adverse changes in the payment status of borrowers (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit) and conditions that correlate with defaults in the assets (e.g. an increase in the unemployment rate in the area where the borrowers live or a decrease in property prices for mortgages in the relevant area).

¹³ The criteria and leading indicators should enable an entity (or bank) to determine whether management's objective has changed from collection of interest and principal to recovery of the outstanding amount. The criteria and leading indicators could build upon, for example, an entity's (or bank's) internal credit risk grades, and could also capitalise on the Basel Framework, including its risk management aspects.

facts and circumstances demonstrate that previous credit problems have been resolved (refer to paragraph IEZ18). Finally, we encourage the Boards to describe more fully the mechanics associated with transfers of loans and their related allowance amounts between both books, and the subsequent re-assessment of the allowance amounts for each book.

Response for Question 7: We find the requirement that the loan classification within the “good book” or “bad book” be consistent with management’s approach to managing the loan to be operational. The Committee is aware that there is a balance to be struck between a pure credit risk management approach to transfers between the two books, which could be open to abuse, and comparability of information. That is why we believe it is important that guidance on transfers be developed as noted above (see Question 6). Finally, in our view, developing such guidance with clear and objective criteria would improve auditability.

Response for Question 8: We agree with the requirement to differentiate between the “good book” and the “bad book”. In our view, it is critically important that expected lifetime losses on “bad book” loans should be fully recognised immediately.

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.

Selected responses:

With respect to the proposed floor, we have the following specific comments:

Joint response for (a) and (b): A floor should be required at all times.¹⁴ This is consistent with the Committee's EL Provisioning proposal that was outlined in its 30 June 2010 *Impairment* comment letter.

The floor is critical because changes in economic circumstances could cause losses that would otherwise emerge later in the life of a loan to emerge within the "foreseeable future" time frame. In addition, invoking a floor for the impairment allowance related to the "good book" only in circumstances where there is evidence of an early loss pattern would add complexity to the proposed impairment model.

Joint response for (c) and (d): We accept setting the floor based on expected credit losses for the "foreseeable future" as defined in the ED. This would be similar to the Committee's EL Provisioning proposal that has the notion of an upcoming period adjustment. For many banks this would cover expected credit losses for the upcoming 12 months; for others it would cover a longer period. As a practical matter, the Committee wishes to avoid any inadequacy of provisions between two annual reporting dates and the related interim reporting periods.

Joint response for (e) and (f): The Committee believes that requiring a floor at all times (as noted in the joint response to (a) and (b) above) would mitigate the too-little-too-late problem. Not having a floor could be counterintuitive in that banks could have lower EL provisioning levels as they enter into a crisis. However the existence of a floor should not be such that it would limit banks' incentives to build sound provisions based on an expected loss approach.

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?

We think the current proposal offers too much flexibility to entities in terms of using either discounted amounts or undiscounted amounts, and when using discounted amounts, in terms of the discount rate which can be used. Although the use of discounting may be conceptually appealing, we support the time-proportional approach without discounting because:

- It is simpler and more straightforward and, therefore, more practical for small institutions;
- As noted above, the proposal offers considerable flexibility in the choice of discount rate for the annuity or discounted straight-line approach. This flexibility will reduce comparability across banks and could potentially result in allowance calculations being manipulated.
- The EL amount is an estimated amount to begin with and determining EL estimates requires significant judgement. Applying a discounting factor only further refines this

¹⁴ This principle applies to the common proposal in the *Impairment* supplement relating to the recognition of credit losses in the "good book".

estimate. It does not necessarily introduce more accuracy in the impairment calculation.

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?

Question 16Z

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

We believe that all loan commitments within the scope of IAS 39 and IFRS 9 that are not accounted for at fair value through profit or loss should be subject to the impairment requirements proposed in the supplement to the ED. As stated in the supplement, banks manage their loan commitments with their loan processes and thus the accounting for impairment should be aligned with banks' credit risk management processes. We also believe that this approach could also tie in with the Basel Framework's internal ratings-based approach on drawn and undrawn loans. Additionally, we believe that financial guarantee contracts within the scope of IAS 39/IFRS 9 should also apply the proposal.

Question 17Z

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

The IASB's document proposes separate presentation in the statement of comprehensive income of interest revenue (based on the effective interest rate excluding impairment losses) and impairment losses (including reversals of impairment losses).

The impairment losses line in the statement of comprehensive income would comprise impairments relating to the "good book" (time-proportional allocation and the effect of the floor applying to the "good book") and impairments relating to the "bad book" (additional credit losses on transfers to the "bad book", increases and decreases in the lifetime expected credit losses on the financial assets already in the "bad book", and releases on any transfers back to the "good book").

Under the current proposal, where reflecting the relationship between the pricing of financial assets and expected credit losses is no longer possible as envisaged in the November 2009 ED, we agree with the proposed presentation. We believe that information about impairment losses should be presented in a clear and transparent manner (also refer to the response to Question 18Z).

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?

The Committee agrees that full and transparent disclosure regarding the operational results of an expected loss approach is essential for users to properly understand the outputs and to minimise the opportunity for earnings management and similar abuses. In addition, disclosures could promote convergence of, and improvements in, impairment practice.

Overarching Issues

In our view, the most significant overarching issue concerns the level of granularity which should be used for the required disclosures. There is a 'trade off' between, on the one hand, keeping particular disclosure categories relatively homogeneous and, on the other, the risk of disclosure overload, especially in the financial statements of large diversified institutions.

A second overarching issue, which also has implications for the volume of disclosures, is what notion of materiality should be applied.

The third overarching issue is to ensure that appropriate information on actual losses is disclosed. In that context, we consider sound definitions of 'non-performing' and 'write-off' to be crucial.

The Committee generally agrees with most of the individual disclosure proposals in paragraphs Z6-Z15. In particular, we agree that:

- Losses should be accounted for through an allowance account, except for losses associated with commitments, for which an allowance account should be included in other liabilities until the commitments are drawn.
- Information should be disclosed at least at the level of granularity of class of financial asset, and reconciled back to the statement of financial position. However, we understand that the use of the term 'class' has caused difficulties in the context of implementing other IFRSs, and we believe that application guidance should be provided on how the term should be interpreted. We also encourage the IASB to consider further whether or not 'class' represents the most appropriate level for disclosure. The examples of classes used in paragraph BZ20 raise, for example, the question of whether the "corporate" class, which is a big part of the business for many banks, should be further disaggregated.
- The assumptions and inputs underlying the estimates of expected losses, including factors behind changes in such expectations, should be explained.
- An analysis should be provided describing the criteria used to determine how financial assets are managed, forming the basis for the classification of loans in either the "good book" or the "bad book" and for transfers between the "good book" and the "bad book".

Paragraph Z8 requires entities to disclose information enabling users to compare the nominal amount of the financial assets for which a "good book" impairment allowance has been determined, the total amount of expected credit losses on these assets and the amount of the impairment allowance. Whilst we support this disclosure, we believe that the usefulness

of this information would be greatly enhanced by requiring this disclosure to be provided at class level when appropriate. This would allow users of the financial statements to get a better understanding of the credit quality of the portfolio and changes in credit quality.

Paragraph Z12 requires entities to disclose information about how previous estimates of expected credit losses compare with actual outcomes. Paragraph Z12 sets out that this disclosure must be quantitative or qualitative depending on whether an entity performs back testing. Given that the outcome of the proposed loan loss provisioning model is highly dependent on estimates of future losses and that estimation of such losses will require significant judgement, this disclosure is crucial for users of the financial statements to gain an understanding of the reliability of estimates made. Therefore, the Committee believes that any qualitative analysis should also involve a discussion of relevant quantitative data.

Finally, we are aware that users of the financial statements can derive some disaggregated information on the impairment losses recognised in profit or loss from the reconciliation required in paragraph BZ22 of the application guidance. Such clear and transparent disclosures on impairment losses are welcomed.

Additional disclosures required

Disclosures that we believe also should be required include:

- Information about the sensitivity of loss estimates to changes in inputs and assumptions (such as “loss given default” assumptions) should be disclosed, where material.
- An articulated policy for transfers of loans between the “good book” and the “bad book”, given that the timing of such transfers impacts provisioning levels. The disclosures should clearly indicate any changes in the policy, for example, how the “good book” and the “bad book” are determined.

We would also note that the disclosure requirements in this proposal could interact with the requirements in IFRS 7. Therefore we would recommend that, prior to publication of a new loss provisioning standard, such interactions should be addressed.

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?

The guidance in paragraph BZ24 proposes to transfer the time-proportional amount for the allowance on the financial asset using the weighted average age and weighted average life of the financial asset or assets.

We agree with the IASB that all transfer approaches should result in the same impact on profit or loss and the allowance amounts for the “good book” and the “bad book”. Following transfers between the “good book” and the “bad book”, it is therefore crucial that the allowance amounts for both books be re-assessed not later than as of each reporting date, i.e. both allowance amounts being adjusted to their appropriate levels.