

International Accounting Standards Board 30 Cannon Street London EC4M 6XH

1 April 2011

Dear Sirs

Financial instruments: impairment (supplement)

ACCA (Association of Chartered Certified Accountants) is pleased to have this opportunity to comment on the above exposure draft (ED).

Impairment for different categories of financial assets should be based on as consistent principles as possible, subject to the practicability of the proposals. In general therefore open portfolios, closed portfolios and individual assets should be impaired using similar bases.

We accept that the previous proposals raised significant practical difficulties for some preparers, especially banks. There may be cases where the provisions for loan losses would not be sufficient to cover foreseeable losses. For these reasons we support the issue being reopened, especially if that would also permit convergence between US GAAP and IFRS.

We have accepted on balance the expected loss model which will provide for losses sooner than the incurred loss model. The model should reflect in net income over the whole life of the instrument the credit risk priced into the loan, but also should reflect impairments when they occur.

The proposals introduce significant new concepts – open/closed portfolios, good book and bad book. The application of these definitions will be subject to judgement and so may not be applied in a comparable way. The ideas may be more familiar in the context of a bank than in the case of other commercial and industrial companies. Both of these distinctions are essentially based on how the assets are managed and that can be interpreted in a variety of ways. So it is important in our view that, while the mechanics of calculating losses may be



done differently to ease practical problems, the underlying principles of impairment are comparable whether items are in an open portfolio or not and whether they are deemed to be in the good book or bad. For that reason we support a 'floor' in the good book, if that makes it a comparable principle to the bad book. The bright line definition of at least 12 months may be understandable in the case of banks as this is a measure which has been used in prudential supervision. It may not be so familiar to others and foreseeable losses may be taken as equivalent to incurred losses under the current standard.

We support the flexibility for the discount rate in open portfolios if this will facilitate the practical application.

A key factor behind the need for this exposure draft was to ensure that the expected loss model can be made more practicable. It is therefore important that these have been field-tested before they are finalised.

This ED seems to have been developed principally to address issues that banks had with the original proposals. However it will be generally applicable and it introduces (as noted above) significant new concepts to be applied to open portfolios without it being clear whether they will be applied to other circumstances. It is yet another building block in the replacement of IAS39. The time given for this consultation of about two months seems inadequate in that context. The IASB should therefore expose the whole of IFRS9 when it is completed.

We have noted above how in a number of ways these proposals have been driven by the issues at banks and indeed that to some extent the proposals reflect practice at banks. As we have noted previously it may be time to consider producing separate standards for financial instruments for banks and financial institutions from those for other companies.

If there are any matters arising from the above that require further clarification, please contact me.

Yours sincerely

Richard Martin

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