International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

30 March 2011

Comments on Supplement Financial Instruments: Impairment

Dear Sir / Madam:

On 31 January 2011, IASB and FABS jointly issued a supplement to the exposure draft Financial Instruments: Amortised Cost and Impairment for additional comments on the most challenging aspects of the proposed model (mainly application of open portfolios). This Supplement requires management to place financial assets managed on an open portfolio basis into two groups, namely the 'good book' and the 'bad book', based on its expectations about the collectability of cash flows from these financial assets, and use different methods to recognise credit losses. Compared with the exposure draft, the approach proposed in the supplement is a simplified approach that decouples the computation of the effective interest rate from the consideration of credit losses. However, we believe that the Supplement proposal has turned the expected loss model from one complex model to another complexity, without effective improvement of its operability. Furthermore, the issue remains that subjective judgment exists in the model to decrease the reliability and comparability of accounting information.

We hope IASB gives full consideration to the economic and management issues facing China today and provides a transition plan to reduce differences in estimates and enhance operability of the model. The comments in details are as follows:

Questions 1:

Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Yes, we believe that the approach described in this supplementary document is able to resolve weakness of delayed recognition of expected credit losses to
the extent credit losses can be accurate estimated.

Questions 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 believe that the approach proposed in this supplement document is not very operable for not only closed portfolios but also open portfolios. Furthermore, the issue remains that subjective judgment exists in the model to decrease the reliability and comparability of accounting information.

1. Operability: This supplementary document requires management to determine expected losses by the higher estimate based on the two approaches for good book. The requirement of management to estimate credit losses using two approaches will double the workload of computation, and demand considerable resources in particular for those developing countries currently relying mainly on indirect financing in their financing structure. This would go against the principle of the Board to simplify the accounting of financial instruments. In addition, the determination of credit loss requires large amounts of historical data, which, however, will prove very difficult for Chinese entities as China has not experienced a complete economic cycle despite its rapid economic development in the past several decades.

2. Reliability and comparability: The determination of credit losses requires significant subjective judgment, including differentiation of the good book and the bad book, life of loans, computation of losses, selection of amortization methods etc. All these involve high level of judgment from the management who is given too much flexibility in the accounting treatments, as management can recognize credit losses in advance based on expectations and subsequently change its expectations to make reversals, resulting in significant decrease of the reliability of accounting information. For example, the loans of one borrower acquired from two financial institutions may be subject to different judgment criteria due to different risk appetites, and have different expected life of these loans. Consequently, the same transactions will be presented very differently in the financial statements of these two financial institutions, considerably decreasing the comparability of accounting information.

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?

No. The reason please refers to comments on questions 2.

**Question 4**

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

No, we believe this approach is not very operationally feasible. Firstly, determining impairment allowance on a time-proportional basis still cannot resolve the absence of full-cycle historical data faced by Chinese entities. Secondly, determination of life time of open portfolios is closely related to dates of individual loans granted, grace periods, repayment dates and maturities, among other things, which also change from period to period. The large number of factors to consider makes it not highly operational.

**Question 5**

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

The proposed approach will be somewhat useful as long as estimates of expected credit losses are accurate given the circumstances. However, as mentioned above, the approach is highly subjective and judgmental, with limited comparability between entities. How to define industry benchmarks, reasonably compare performance of different entities and adjust the incomparable data are the key questions requiring our serious consideration.

**Question 6**

Is the requirement to differentiate between the two groups (‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Yes, the requirement is clear.

**Question 7**

Is the requirement to differentiate between the two groups (‘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?

It is not very operational. Firstly, different banks have different risk management policies which would result in different criteria and low
comparability. Secondly, the definition of good book and bad book is different from the definition currently used in China for non-performing loans and the definition for impaired loans under Chinese Accounting Standards. We suggest the use of examples or providing alternatives, for example, using the current definitions for impaired loans and non-performing loans as basis for differentiating the bad book.

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?

Please refer to the comments on questions 7.

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?

Agree in principle. The minimum allowance amount (floor), to some extent, is able to offset the procyclical effect of the incurred loss model. The estimation of impairment allowance in the proposed approach, in particular for the good book, would have certain issues in application, as explained in detail in our comments on questions 2.

(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?

No.

(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?

We agree that minimum allowance amount should be determined on the basis of losses expected to occur and we'd like IASB to provide more practicable guidance on how to determine the amount.
(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

Agree.

(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.

No and we believe it would be better to be consistent with the requirement under the BASEL Accord.

(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.

No.

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.

It is difficult to comply with the exposure draft and the supplementary document in estimating credit losses due to the absence of full-cycle data.

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 believe it would be better for IASB to develop a detailed new solution for determining impairment allowance based on comments on Q2 to Q8. We see little difference in discounted and undiscounted estimates.

(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?

Agree.

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 (i.e. to recognise expected credit losses over the life of the assets)? Why or why not?

We don’t prefer the IASB proposal. Taken as a whole, the IASB proposal runs counter to the principle of reducing complexity of treatment for financial instruments that the Board has been advocating, and it is also not very operational.

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 (i.e. to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

Yes. Comparatively, the FASB proposal is more operational in addressing the procyclical effect and would make things easier.

Yours sincerely,

【签名】

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