Madrid, 1 April 2011

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Re: IASB Supplementary document Financial Instruments: Impairment

Dear Sir David,

Banco Bilbao Vizcaya Argentaria, S.A. appreciates the opportunity to provide you with our comments on the IASB Supplementary Document on Impairment (SD) issued in January 2011.

We believe the SD is a move in the right direction in order to achieve a new impairment model. In particular, we welcome the IASB acknowledgement of the concept of open portfolios as well as the separation of the calculation of the expected losses from the effective interest rate. Both issues represent an important improvement compared to the original proposal and leads to closer alignment with the business practices. However, we have some doubts and concerns about the proposed impairment model in the SD that we share with you in this comment letter.

Additionally, although we acknowledge that the SD focuses only on the timing of recognition of expected credit losses for open portfolios and some other important issues such as the methods for measuring expected credit losses will be deliberated subsequently, we believe that in order to assess correctly the proposed model is necessary to link both issues. Therefore, we give some considerations to the measurement of expected losses in this letter.

Our general remarks about the SD are the following:
1. Scope of the SD and interaction with ED

Uncertainties remain in regard to the scope of the SD as it is not clear whether different impairment models will be applied to open portfolios and closed portfolios or individual instruments. BBVA favors a single impairment model for all financial instruments at amortized cost, including financial guarantees and loan commitments, and believes the development of separate models is not desirable or justified.

We would like to emphasize that the decoupling of effective interest rate calculation and the expected loss calculation is equally crucial for closed portfolios as is for open portfolios. Therefore, BBVA believes the application of the original model on closed portfolios/individual assets would remain operationally challenging in case the decoupling issue was not incorporated.

Furthermore, taking into account that there are still some important issues to be redeliberated and that there is not a document which embraces the complete proposed impairment model, we believe that a re-exposure with the complete proposal is necessary to be able to analyze it as a whole and make impact studies. We notice that the target date for completing the final standard is June 2011; however, for the benefit of the quality of the final standard, it would be preferable to postpone it until the end of 2011.

2. Convergence

BBVA support a converged approach for the new impairment model. What is more, we believe that convergence is essential not just in an impairment context, but as a general objective for all accounting and reporting standards. Converged standards would improve the quality, consistency and comparability of financial information for investors and capital markets around the world and that should continue to be one of the main objectives of any new Standard.

3. BBVA preferred impairment model

BBVA believes that the IASB only model (no floor), with some clarifications, could be the best alternative for the new impairment model for the good book. However, we would like the Board:

- To better explain the objective of how the model is intended to operate in various parts of the economic cycle
To clarify that the Board’s intention with the new impairment model is to address the delayed recognition of losses (too little too late issue) so that expected loss allowances built in advance would absorb incurred losses as they crystallize (see point 5).

Our preference to the IASB only model is related to our concern with the foreseeable future floor. Conceptually, introducing a general floor in the IASB only model does not fit properly as it distorts the original objective of matching interest income and expected losses.

We notice that some constituents have the concern that the time-proportionate approach (TPA) mechanism could lead to an insufficient level of provisions on some circumstances such as portfolios with early loss patterns. We believe that these concerns may be based on a misunderstanding of the TPA approach. Normally, in an open portfolio context, there would be loans at different stages in the expected loss cycle, so there are no early loss patterns.

However, we recognize that this may not be the case in all instances and therefore a floor mechanism may be required to cover such scenarios. This could be the case in closed portfolios (by vintages), in fast growing or newly created portfolios. For those particular portfolios a floor should be applied.

Anyway, should a general floor for all portfolios be unavoidable as a political compromise, it should be artificially set at a level of 12 months of expected losses. If for any reason the Board decides to set the floor at a higher level, we would support the FASB only model as the new impairment approach. We believe that a better clarification of the foreseeable future concept is needed (see point 5), but in case the foreseeable future is defined as a period exceeding 12-18 months, we believe the floor will be the only determinant of the level of allowances for the good book in most circumstances (the spreading mechanism which is the core characteristics of the IASB approach will not apply) and, therefore, operationally it would be much easier to apply just one model (the FASB only model).

In conclusion, our preference for a new impairment model follows the following order:

- First, the IASB only model with a floor exclusively for those portfolios for which the early loss pattern is an issue.
- Second, the IASB model with a floor that never exceeds 12 months of expected losses.
- Lastly, the FASB only model, being the foreseeable future a period that is, in essence, not constant over time.
In our opinion, the worst situation would be the proposed common approach, when two models developed with different objectives and based in different premises are combined into one. Both of them could be meaningful on its own but not in a combined approach.

Furthermore, we consider that a model that incorporates the possibility of two different concepts for expected loss allowances for different portfolios on the balance sheet (time proportional approach versus foreseeable future) and also the requirement of switching between those two EL concepts for the same portfolio over subsequent reporting periods would be very misleading for users and therefore, would not result in any useful information for users.


We agree with the proposal to distinguish between the good book and the bad book based on the entity’s credit risk management practices (loans are considered bad when the credit risk management objective changes from receiving regular payments to recovery the loan) as it is an alignment between accounting, reporting and credit management purposes. However, following the same idea, we believe more precise specifications are needed in order to achieve comparability and avoid arbitrage practices. Good book-bad book distinction is a key issue that determines the level of provisions of an entity.

In this sense, we believe that current Basel definition for default loans would be adequate to use when defining the bad book (see answer to question 6).

5. Need for clarification of the of the foreseeable future concept

We find a lack of clear definition of the concept of the foreseeable future. From our conversations with geographically different financial entities during the SD comment period, we believe that it is a very judgmental concept that could result in a lack of consistency in application across different banks, product types and portfolios, resulting in a fundamental lack of comparability and auditability.

Furthermore, we would like to emphasise the fact that the future period for which accurate expected losses estimations can be done is not constant over time. Entities should be able to adapt it to the circumstances and information available in each moment. From our experience in the last crisis, we could say that the future time period for which expected losses estimates are reasonably and accurately possible is not constant over the economic cycle. This period is longer in good times than in bad times. Should the foreseeable future be required to be a fairly constant period, it would loose its meaning of period over which the entity can develop specific projections and would become a concept close to a regulatory requirement.
On the other hand, we believe that the definition of foreseeable future ("future time period for which specific projections and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections") could lead to clear inconsistencies in practice. For example, this definition could provoke that entities that are able to forecast losses longer in time would have a higher level of provisions than those entities that are not able to look further into the future to make specific estimations.

6. Need of clarification regarding the usability of the provisions in practice

BBVA believes that any model replacing the current incurred loss model should be built around the following key principles (EBF principles):

1) Expected losses should be recognized over the life of the portfolio
2) Expected losses should be determined on a portfolio basis
3) Expected losses are the best estimates of the losses on the financial assets existing in the portfolio at balance sheet date
4) No change in the EIR calculation from the current IAS 39 (essential also for closed portfolios)
5) Impaired loans are treated as in the current IAS 39
6) Incurred losses are the crystallization of expected losses, so expected loss allowance are built to be used

The IASB proposal reflects the first five principles.

However, as we have already mentioned before, there is a concern regarding the last principle: "Incurred losses are the crystallisation of expected losses, so expected loss allowances are built to be used". We believe that, as it is written the proposed model, while the provisions will be built up early and the amount will in many instances be higher than today, the lack of the ability of the entities to predict the beginning and the end of an economic cycle, as well as its depth, makes it difficult to ensure that sufficient provisions have been built up in advance of a crisis, and use those provisions that have been built up, when conditions deteriorate. Therefore, this would result in an incurred loss pattern in the profit and loss account that is quite similar to the incurred loss model of IAS 39.

The only way to partly mitigate this under the proposed model in the Supplement ED is to ensure that there is a consequential reduction of the allowance for the good book if and when loans are transferred to the bad book and vice versa. This may be best illustrated by the conditions that exist at the worst point of an economic cycle. At this point many bad loans will be or have been transferred to the bad book. If management applies a positive outlook (when justified based on reasonable and supportable information on forecasts of future events and conditions) in estimating future expected losses for the good book, a meaningful reduction to the good book provision will be
possible, which would provide an offset against the immediate additional provisions needed for the incurred losses in the bad book.

However, in practice it would be very difficult to accomplish this, as it would require predicting the beginning and the depth of economic cycles, and also their depth, which is practically very difficult and, if even possible, would always occur with a significant delay.

Therefore, that is why we believe that the standard should be clarified to better explain the objective of how the model is intended to operate in various parts of the economic cycle and should better explain that the offset as explained above is intended to arise (for example by providing guidance or examples that assists in making judgements in the relevant parts of the economic cycle). Such clarification will avoid that in practice we end up with an impairment model that is similar or equal to the existing incurred loss model with only an additional "buffer" in the balance sheet. It is not clear how that outcome would address the criticism on the current IAS 39 model.

Regarding the possible guidance that the Standard could provide to address the desirable previously mentioned usage of the expected loss allowances, we believe that a specific consideration should be given to the use of historical average loss rates when measuring future expected losses. Although we firmly support that when estimating expected credit losses all available information (past, present and future) must be used we believe that it also should be taken into account that predicting accurately expected losses for the remaining life is a highly judgmental area and that important differences could arise between entities and geographies. Therefore, we believe that for expected loss estimations beyond the closest future (i.e. 12 months), the use of long-term historical average loss rates should be used as an important starting reference point. These long-term historical average loss rates should be then complement with any more specific information that the entity could have such as current economic conditions and supportable forecasts of future events and economic conditions.

CONCLUSIONS

To sum up, our key points around the SD proposal are the following:

- The SD is a move in the right direction to replace the current impairment model. However, we believe that a re-exposure with the complete impairment proposal is necessary to be able to analyze it as a whole and make impact studies.

- We support a converged approach for the new impairment model.

- BBVA believes that the IASB only model could be the best alternative for the good book. However, in order to fully address the "too little too late" concern, a better explanation of how the model is intended to operate in various parts of the economic cycle is needed.
The foreseeable future floor distorts the objective of matching interest income and expected losses.

To address the specific and probably rather limited circumstances of "early loss pattern" for portfolios for which that pattern is relevant and the time proportionate mechanism does not provide adequate provisions to cover such loss pattern, a floor may be required.

Should a floor be introduced instead in general for all portfolios, as a compromise to achieve a converged solution, the foreseeable future should be limited to 12 months to avoid the fact that the floor would dominate the loss recognition and the time proportionate approach would be invalidated.

In case the floor is established at a higher level, we believe FASB only model would then be the preferred model. In that case, we believe that the foreseeable future period should not be fairly constant in time and entities should be able to adapt it to the circumstances and information available in each moment.

The SD definition of the foreseeable future is not clear and could lead to a lack of consistency in practice.

We believe that a more precise definition for the bad book should be established in line with current Basel default definition.

Additional guidance is needed about making judgments when measuring expected losses. Although all available and supportable information must be used, we believe a specific consideration should be given to the use of long-run historical average loss rates as a starting reference point of the calculations for the losses that are expected to occur beyond the closest future.

Lastly, and in relation to the effective date of the Standard, as we pointed out in our letter answering the Request for views on effective dates and transition methods, we advocate a single date approach for the new impairment Standard without early adoption option. In this regard, based on the expected issued date (June/December 2011) we consider that at least three years implementation time will be necessary. This would lead to an effective date of 1 January 2015. The main benefit of the implementation of the Standard at a single date would be the comparability among entities. This fact would facilitate the external communication and understanding by investors and analysts.

We would be pleased to discuss our comments or answer any questions that you or your staff could have. Please contact Jaime Vázquez Castro (+34 91 5378197) or myself.

Yours faithfully,
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?

BBVA supports an impairment model based on the expected loss recognition which by its nature should lead to a higher level of provisions compared to the current situation.

However, we do not agree with the model proposed in the SD as it is the combination of two models (the IASB initial model and the FASB model) based in different premises and developed with different objectives. In this sense, we believe that the introduction of the floor in the IASB model does not fit properly as the model had been developed with the objective of matching the expected losses with interest income, and the introduction of this new concept distorts this objective. Additionally, as we explain in question 9.c), the floor will be the binding constraint should the foreseeable future be defined as a period exceeding 12 months.

On the other hand, and directly related to the objective of dealing with the current delayed recognition issue, BBVA has some concerns regarding the common proposed model as we believe it would not allow to achieve that objective. Specifically, we believe that the introduction of the foreseeable future (floor), the differentiation between the good book and the bad book, and the lack of clarity of usability of the allowances could undermine that objective.

Therefore, with the aim to address the delayed recognition issue, we consider that the proposed methodology for the good book should be revised. Our preferences are the following:

- First, the IASB only model with a floor exclusively for those portfolios for which the early loss pattern is an evident issue. However, we would encourage the Board:
  - To better explain the objective of how the model is intended to operate in various parts of the economic cycle
  - To clarify that the Board’s intention with the new impairment model is to address the delayed recognition of losses (too little too late issue) so that expected loss allowances built in advance would absorb incurred losses as they crystallize

- Second, the IASB model with a general floor for all portfolios that never exceeds 12 months of EL
Lastly, the FASB only model, being the foreseeable future a period that is, in essence, not constant over time.

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.

BBVA favours a single impairment model for application on open and closed portfolios as well as on individual instruments. Specifically, the decoupling of effective interest rate calculation and the expected loss calculation is equally crucial for closed portfolios as is for open portfolios.

BBVA believes the new proposal is operationally less complex compared to the original model, although some degree of complexity remains, and it is equally applicable for closed portfolios as well as individual 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?

BBVA does not agree with the use of a floor in recognising expected losses in the good book, as this takes the approach further away from the matching concept. The use of a foreseeable future floor is also based on a different concept of loss recognition. Therefore, our first preference to the IASB only model is related to our concern with the foreseeable future floor (see question 9).

Furthermore, there is a practical concern that provisions built up over time may not be available for use when credit conditions deteriorate. This may be best illustrated by the conditions that exist at the worst point of an economic cycle. At this point many bad loans will be or have been transferred to the bad book. Only if management applies a positive outlook (when justified based on reasonable and supportable information on forecasts of future events and conditions) in estimating future expected losses for the good book, a meaningful reduction to the good book provision will be possible, which would provide an offset against the immediate additional provisions needed for the incurred losses in the bad book.
However, in practice it would be very difficult to accomplish this, as it would require predicting the beginning and the end of economic cycles, and also their depth, which is practically very difficult and, if even possible, would always occur with a significant delay.

Therefore, that is why we believe that the standard should be clarified to better explain the objective of how the model is intended to operate in various parts of the economic cycle and should better explain that the offset as explained above is intended to arise (for example by providing guidance or examples that assists in making judgements in the relevant parts of the economic cycle). Such clarification will avoid that in practice we end up with an impairment model that is similar or equal to the existing incurred loss model with only an additional “buffer” in the balance sheet. It is not clear how that outcome would address the criticism on the current IAS 39 model.

Question 4

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

While the approach is still complex as it requires tracking of the historical data and two sets of calculations (to determine the floor and the time proportional expected credit losses), it is capable of being made operational.

In this regard, we believe that a specific consideration should be given to the use of historical average loss rates when measuring future expected losses. Although we firmly support that when estimating expected credit loses all available information (past, present and future) must be used we believe that it also should be taken into account that predicting accurately expected losses for the remaining life is a highly judgmental area and that important differences could arise between entities and geographies. Therefore, we believe that for expected loss estimations beyond the closest future (i.e. 12 months), the use of long-term historical average loss rates should be used as an important starting reference point. These long-term historical average loss rates should be then complement with any more specific information that the entity could have such as current economic conditions and supportable forecasts of future events and economic conditions.

Question 5

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

BBVA believes that the balance sheet under the joint model may not be clear as it will lead to a changing meaning of the allowance. In practice, the expected loss would either
be calculated under the time proportionate approach or the foreseeable future expected loss which may be misleading to the users and difficult for preparers to explain.

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?

BBVA believes that the final document should include a clear guide to differentiate between the GB and BB in order to strengthen comparability and avoid possible arbitrage practices. Loans in the bad book support a higher provision (all the incurred loss) than loans in the good book. Therefore, the definition of the good book and the bad book determine the level of provision. If that definition is not clear enough, this could bring some arbitrage in order to avoid provisioning at certain level.

In this context, as this information is also required by supervisors, we believe that the Basel definition for default loans could be used to define the bad book as it would improve comparability among entities. Under Basel requirements, a default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held).
- The obligor is past due more than 90 days on any material credit obligation to the banking group.

Moreover, this definition of bad book would be more aligned with how entities actually manage credit risk of loan portfolios and make its disclosure to the market (for example, Pillar III).

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?

As we explain in question 6 above, yes, if the definition is clarified in the sense we are proposing in question 6.
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?

Yes, BBVA agrees with the requirements. However, as we explain in question 6 above a more detailed guide is needed for the good book/bad book distinction.

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?

As we already have mentioned in question 3, BBVA does not agree with the introduction of a general floor in the TPA approach. Introducing a general floor in the IASB only model does not fit properly as it distorts the original objective of matching interest income and expected losses. However, we understand that a floor could be meaningful in some situations such as the one discussed in question 9.b).

Anyway, should a general floor for all portfolios is unavoidable as a political compromise, we believe that it should be artificially set at a level that is not the only determinant of the level of the provisions, that is, 12 months of expected losses.

(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?

We agree with this alternative. We notice that some constituents have the concern that the time-proportionate approach (TPA) mechanism could lead to an insufficient level of provisions on some circumstances such as portfolios with early loss patterns. We believe that these concerns may be based on a misunderstanding of the TPA approach. Normally, in an open portfolio context, there would be loans at different stages in the expected loss cycle, so there are no early loss patterns.
However, we recognize that this may not be the case in all instances and therefore a floor mechanism may be required to cover such scenarios. This could be the case in closed portfolios (by vintages), in fast growing or newly created portfolios.

Therefore, only if an evidence of an early loss pattern exists and can be demonstrated, the standard should introduce a mechanism to assure that these portfolios have all the necessary provision recognized in the balance sheet. However, we believe that in very limited circumstances this “early loss pattern” would be relevant.

(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 we have already mentioned, BBVA does not agree with the proposed minimum allowance amount:

- First, we find a lack of clear definition and understanding of the concept of the foreseeable future. From our conversations with geographically different financial entities during the comment period, we believe that it is very judgmental concept that could result in a lack of consistency in application across different banks, product types and portfolios, resulting in a fundamental lack of comparability and auditability.

- Second, in many cases the floor will be the binding constraint should the foreseeable future be defined as a period exceeding 12-18 months. Above a level of a provision of 18 to 24 months, the floor will often prevail over the time proportionate provision. The threshold of a 2 year EL floor will probably only be exceeded in rare circumstances. Consequently, in most circumstances, the time proportionate provision will be less than 2 years expected losses, and the floor will be the only deterministic of the level of the good book provision.

As we explain in the question 13, because the floor would prevail in most circumstances, if any floor is finally established in the final document, BBVA would support the FASB only model, should the foreseeable future period be a changeable period depending on economic situations instead of being fairly constant period.

Furthermore, we believe that the definition of foreseeable future (“*future time period for which specific projections and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections*”) could lead to inconsistencies in practice. For example, this definition could provoke that entities that are able to forecast losses longer in time would have a higher level of provisions than those entities that are not able to look further into the future to make specific estimations.
(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

From the experience in the last crisis, the future time period for which expected loss estimates are reasonably and accurately possible is not constant in all economic conditions. This period is longer in good times than in bad times. Should the foreseeable future be required to be a fairly constant period, it would loose its meaning over the period which the entity can develop specific projections and would become a concept close to a regulatory requirement.

Therefore, if the final standard requires to calculate expected losses for the foreseeable future, the foreseeable future should be a changeable period (see answer to question 13)

(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.

As it is mentioned above, the concept of foreseeable future is not clear and would lead to a lack of consistency in application across entities as well as product types and portfolios. It will be based on the practices of the institutions risk management and the level of information available in different markets and as explained previously the foreseeable future period could be short or long depending on the economic conditions. Anyway, if the final standard establishes a floor, the foreseeable future period should be changeable and not constant at all times.

(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.

In case a general floor is established for all portfolios, BBVA believes the foreseeable future should not be greater than 12 months to avoid that the floor would dominate loss recognition and invalidate the matching concept. For portfolios with remaining life under 12 months the ceiling should be established on their remaining life.

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.

As explained in question 9c) BBVA believes that above a level of a provision of 18 to 24 months, the floor would prevail over the provision using the TPA. In practice this would mean that the FASB only model is applied. Therefore, if the final document establishes a general floor for all portfolios BBVA would support a FASB only model with a changeable future period time for calculating expected losses.

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?

Yes, BBVA agrees with the proposed flexibility.

(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?

Yes, we 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 (ie to recognise expected credit losses over the life of the assets)? Why or why not?

As explained in the cover letter, our preferences for the good book impairment model are the following:

- First, the IASB only model with a floor exclusively for those portfolios for which the early loss pattern is an evident issue. However, we would like the Board:
  - To better explain the objective of how the model is intended to operate in various parts of the economic cycle
- To clarify that the Board’s intention with the new impairment model is to address the delayed recognition of losses (too little too late issue) so that expected loss allowances built in advance would absorb incurred losses as they crystallize

- Second, the IASB model with a general floor for all portfolios that never exceeds 12 months of expected losses

- Lastly, the FASB only model, in case a general floor is established at a level higher that 12 months, and being the foreseeable future a period that is, in essence, not constant over time.

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?

As explained in the answer to the previous question, should a general floor for all portfolios be unavoidable and its level is higher than 12 months of expected losses, we would support the FASB only model as the new impairment approach. That is, if the foreseeable future is defined in practice as a period exceeding 12-18 months, we believe the floor will be the only determinant of the level of allowances for the good book in most circumstances (the spreading mechanism which is the core characteristics of the IASB approach will not apply) and, therefore, operationally it would be much easier to apply just one model (the FASB only model).

Appendix Z

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?

Yes. This is considered one of the major improvements both conceptually and operationally. As said before, it should be clear in the Standard that the decoupling applies both for open and closed portfolios and also for individual assets.

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?

Yes, as all loan commitments are managed the same way as loans valued at amortised cost (IFRS 9).

Question 16Z
Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

Yes, BBVA believes it would be operational.

Question 17Z
Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

Yes, we agree.

Question 18Z
(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

BBVA supports the recent Board decisions to eliminate the requirements for some of the disclosures as proposed in the original ED in particular those relating to loss triangles and stress testing. Due to the limited comment period and the desire to focus on the conceptual aspects of the combined approach model the members of the EBF did not have sufficient time to undertake a detailed review of the requirements about disclosure set out in the SD and how they link to all assets held at amortised cost.

Additionally, as the overall picture of the impairment model is not available, it is not clear at this point how the proposed disclosure requirements will fit with the final model. That is another reason why we understand a re-exposure is needed.

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

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 disclosure requirement suggests that the time proportionate amount of the allowance should be transferred to the bad book, the bad book allowance should be subsequently increased for the remaining amount needed and the good book allowance should be recalculated. While in practice the level of the good book allowance would not be affected, BBVA would prefer a transfer in the amount of 100% allowance to the bad book.