

1 April 2011

Sir David Tweedie  
Chairman  
The International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
**United Kingdom**

Dear Sir David

**Supplement to Exposure Draft/2009/12 *Financial Instruments: Amortised Cost and Impairment*, *Financial Instruments: Impairment***

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the International Accounting Standards Board (IASB) Supplement to Exposure Draft 2009/12 *Financial Instruments: Amortised Cost and Impairment*, titled *Financial Instruments: Impairment* (the Supplement).

The FRSB fully supports the objective of the IASB to simplify the complexities in accounting for financial instruments. As stated in our original submission our preference is for the incurred loss model to be retained with additional application guidance to ensure it is applied in a conceptually rigorous manner. However, on the basis that the IASB proceeds with the supplement impairment model we highlight our main comments in response to the Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, *Financial Instruments: Impairment*.

**Joint Supplementary Document *Financial Instruments: Impairment***

The FRSB considers that the Supplement to the Exposure Draft and the Application Guidance set out in Appendix B is an improvement on the original ED proposals. However, we remain concerned with regards to the practical application of these proposals to all entities with the potential exception of “sophisticated financial entities” (banks and financial institutions).

General comments:

- Whilst we can understand the political basis for including a “floor” in the model we do not accept the technical basis for doing so.
- The FRSB agrees that the proposals in the Supplement regarding the allocation of expected losses, the “good book / bad book” methods to recognise expected losses and the time proportional approach, are all preferable to the original proposals. However, they are still complex (particularly for “non sophisticated financial entities”) and rely heavily on management decisions.
- Although our preference is for a single model given the complexity of these proposals we urge further consideration be given to whether an entity could choose

to adopt a more simplified method, when the entity is not a bank or other financial institution.

- The FRSB is concerned that a number of issues raised by constituents have yet to be addressed. Whilst it is acknowledged in the supplement that the Boards have yet to redeliberate on these issues it is not possible to conclude on the supplement without full consideration of these. Specific items here include: closed portfolios, variable interest rate loans, interest revenue recognition, and short term trade receivables.
- We consider that further practical guidance on application of the proposed standard would be of value to all entities.

### **IASB-only Appendix Z Presentation and Disclosure**

The FRSB is very supportive of the Presentation requirement in paragraph Z5 of the Supplement Appendix. In our previous submission we noted that it is not appropriate to offset expenses (i.e. the impairment expense) against revenues, in this case the interest received. We noted that in IAS 1 *Presentation of Financial Statements*, offsetting of revenues and expenses reduces the ability of users of financial statements to understand the transactions and other events that have occurred and to assess the entity's future cash flows. Therefore we are pleased to see the new presentation proposal requiring interest revenue to be shown separately from impairment losses.

The FRSB considers the disclosure requirements in paragraphs Z6 to Z15 to be overly detailed for all but sophisticated financial institutions. Such entities are likely to already have most of the information proposed to be disclosed. We believe that the proposed disclosures are likely to place an unnecessary reporting burden on entities.

### **Conclusion**

The FRSB continues to be of the view that changing the impairment model will not prevent financial crises. Both the incurred loss model and the expected loss model are subjective in nature; however, the expected loss model is more subjective than the incurred loss model and is unlikely to resolve the issue of inadequate provisioning in both times of stable economic activity and in times of financial crises.

If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely



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