



April 1, 2011

Technical Director – File Reference No. 2011-150  
Financial Accounting Standards Board  
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International Accounting Standards Board  
30 Cannon Street  
London ED4M 6XH  
United Kingdom  
Re: FASB and IASB Supplementary Document, *Impairment* (“SD”)

Sent via email to [director@fasb.org](mailto:director@fasb.org)

The Group of North American Insurance Enterprises (“GNAIE”)<sup>1</sup> is pleased to provide comments to the Financial Accounting Standards Board (FASB) and the *International Accounting Standards Board (IASB or collectively, Boards)* on the SD designed as a joint proposal to address a key element of the future impairment model, specifically recognition of impairment on financial assets managed in open portfolios.

We appreciate the Boards’ efforts to address concerns raised in the feedback and comment letters received on the Boards’ original exposure drafts<sup>2</sup>. We are pleased that the Boards developed the SD jointly.

Despite the joint nature of the project, we are concerned that the Boards will not be able to achieve a single converged standard given the inconsistent project timelines, project plans and certain inconsistent decisions reached by the Boards. For example, within the SD, it is clear that the FASB has not yet discussed and concluded on certain provisions, such as defining the ‘foreseeable future,’ providing flexibility relating to using discounted amounts, and presentation and disclosure elements. To the extent the inconsistencies persist the Boards may ultimately establish different guidance, potentially creating competitive disadvantages for certain jurisdictions. GNAIE believes it is critical for the Boards to develop a fully converged Financial Instruments (AFI) standard and urge them to work together to achieve that goal.

We would like to preface our specific comments on the SD by stating several observations about the scope and direction of the impairment proposal. First, it is difficult to consider the potential implications of the SD given that the scope of the document has been evolving during the exposure period. The document indicates that, for the FASB, it applies to open portfolios of loan and debt instruments that are not measured at fair value through

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<sup>1</sup> GNAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

<sup>2</sup> Proposed Accounting Standards Update—Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815) issued May 2010 and ED/2009/12—*Financial Instruments: Amortised Cost and Impairment* issued November 2009

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net income (FVNI). Since the Boards continue to deliberate the classification and measurement aspects of the accounting for financial instruments, the scope of the document as defined is a moving target. In order to provide meaningful comments on the SD, we must consider it in the context of the other decisions made in the overall AFI project. This is a challenging task due to the Boards' continued deliberation of decisions that will impact the scope and application of the SD.

Second, we note that although the Boards have limited the scope of the document to loan and debt instruments managed in open portfolios, comments are requested on the potential application of the model to all other loans and debt instruments not measured at FVNI. We are aware of the Boards' objective of developing a single impairment model for all financial assets. We also note that the Boards have expressed the view that the application of an impairment model to open portfolios presents the most fundamental challenge and that other impairment-related issues are not as significant. We believe the implication of those statements is that the Boards may decide to expand the scope of this proposal to all financial assets not classified and measured at FVNI without further public exposure of that critical decision.

Leading up to the SD the staff of the Boards and Expert Advisory Panel spent months apparently reverse engineering an accounting "approach" for impairment that fits current business practices for large portfolios of (generally) consumer loans and receivables. While we applaud the effort, public statements by staff and Board members leave us concerned that this result will be applied to all impairment decisions without sufficient effort to determine if this particular approach is appropriate, practical or necessary for other asset classes, much less if it consistent with *our* current business practices for determining impairments for the asset classes in which insurers invest. Since insurance companies do not manage many of their assets on a portfolio basis and do not currently delineate between assets in a 'good book' and those in a 'bad book,' the proposed concepts in the SD would be more difficult, costly and complex to operationalize for insurance companies.

We believe it would be more consistent with due process to now take the time to re-examine the model and principles in the ED to ensure that there is sufficient discretion to apply the approach described in the SD to those asset classes for which it is appropriate, and that the principles are sufficiently robust to ensure consistent results. We make recommendations to that end below. We will also *take this opportunity to provide feedback more broadly on the impairment recognition model for all debt instruments and loans. However, we would also urge the Boards to expose any impairment proposals related to individual assets for public comment.*

*In addition to the evolving scope of the SD, we also believe it is difficult to consider its implications without clarity on other fundamental aspects of the impairment model such as measurement of expected credit losses and interest recognition. The Boards are currently deliberating impairment-related issues that are outside of the scope of the SD, such as how to estimate expected losses. We are concerned that the Board will not expose those related impairment issues for public comment and we are particularly concerned about the direction of recent Board discussions indicating the required use of expected value techniques to derive expected losses.*

We agree with the incorporation of an entity's credit risk management into the determination of impairment recognition. However, currently the majority of the financial assets of insurance companies are managed (for credit risk management purposes) on an individual basis, which would be outside of the scope of the SD as it is currently written. For example, most debt securities and commercial mortgages are managed (for credit risk management purposes) individually because typically there is borrower-specific information readily available or provided, which is monitored with enough frequency to identify when a loss is expected to occur in the future. Moreover, in those limited situations where assets are managed on a portfolio basis, they are not separated into a 'good book' and 'bad book.' We understand that for credit risk management purposes, banking institutions manage their loans consistent with the proposal; however, given the scope of the proposal the Boards must consider that insurance companies have a different credit risk management model for managing assets.

Given the points raised in the previous paragraphs, coupled with the Boards' request to receive feedback on the suitability of the proposed model for individual assets and closed portfolios, GNAIE would like to propose an



alternative that could be applied to both individual assets and assets managed in a portfolio. This alternative proposal (“GNAIE proposal”) is consistent with the concept of “credit risk management” being the basis for determining how assets are evaluated for impairment and still utilizes expected credit losses as the basis for recording impairment. While the measurement of expected losses is not specifically addressed in the SD, we believe the final impairment guidance should explicitly state that any credit enhancements or guarantees related to the assets evaluated should be considered when determining expected losses (such as guarantees on bonds or loans).

#### GNAIE’s Proposed Impairment Recognition Model

The scope of GNAIE’s proposal is loans and debt instruments that are not measured at FVNI. The first step in the analysis of impairment recognition would be to determine whether an entity evaluates and recognizes credit losses for an asset at an individual or portfolio level. Consistent with the business activity approach being considered in the classification and measurement determination for financial assets, the business activity concept should apply in determining whether assets are evaluated at the portfolio or individual level for impairment. Specifically, the model used for impairment recognition and measurement should be based on the level of evaluation performed by an entity to monitor and manage the credit risk of the loan or debt instrument. This determination should be supported by documented accounting policies, which will ensure consistency in the level at which assets are evaluated over reporting periods. This concept will result in a similar focus on how an entity evaluates the asset from a risk management perspective, which was a key concept in the Boards’ proposal. However, the GNAIE proposal would replace the language in the Boards’ proposal that focuses on when an entity shifts from collecting cash flows to maximizing recovery to determine the split for the impairment model (i.e., move from ‘good book’ to ‘bad book’) with using an entity’s risk management of those assets (portfolio vs. individual evaluation) to determine how to evaluate impairment.

Some factors that indicate whether the risk management strategy is to monitor assets as a portfolio or individually include the following:

- Portfolio: Typically where little or no information is readily available or provided and monitored regularly with respect to the asset, issuer, or borrower. An example would be certain residential mortgage loans.
- Individual: Typically there is asset, issuer, or borrower-specific information readily available or provided and monitored with enough frequency to identify when a loss is expected to occur in the future. An example is corporate debt securities. A further indicator is if there are concerns about the recoverability of that asset. This would include assets that are initially evaluated within a portfolio but due to recoverability concerns, the credit risk management strategy changes to evaluating those assets individually.

The impairment recognition and measurement for assets managed at the portfolio level would be consistent with the SD’s ‘good book’ concept. Impairment recognition and measurement for assets managed individually would be based on changes in expected credit losses from acquisition (similar to the model used for debt securities under existing U.S. GAAP). Specifically, impairment would be recognized once there is an expectation of credit loss and then subsequently for changes in expected credit losses. This concept aligns with the ‘bad book’ concept of taking the full amount of lifetime expected credit losses, except we presume that impairment is only evaluated once there is an expectation of credit losses (or in other words, an adverse change in expected cash flows). Consistent with the SD, there would be no probability indicator or threshold that would trigger impairment recognition on individual assets. Specifically, the individual asset impairment model would not only be applied to assets for which fair value is less than its amortized cost basis. Another change from the current U.S. GAAP impairment model is that if credit risk improves on an individual asset, reversals of previous impairments should be permitted. We believe the following factors may indicate that a credit loss is expected for an asset evaluated individually:

- Fair value is less than the asset’s amortized cost basis,
- The length of time and the extent to which the fair value has been less than the amortized cost basis,
- Adverse conditions specifically related to the asset, an industry, or a geographic area,



- The historical and implied volatility of the fair value of the asset,
- The payment structure of the asset and the likelihood of the issuer being able to make payments that increase in the future,
- Failure of the issuer of the instrument to make scheduled interest or principal payments,
- Any changes to the rating of the asset by a rating agency, and
- Additional declines in fair value subsequent to the balance sheet date.

We believe that our proposed model has the following advantages:

- Since the impairment recognition model provides flexibility to evaluate impairment at the individual or portfolio asset level, entities could continue to manage and monitor financial assets consistent with current practice. For assets that are currently managed individually, this would eliminate initial costs and efforts necessary to group them into portfolios, gather information at the portfolio level, and develop supporting accounting policies and processes. However, our model would also provide flexibility to entities that manage asset credit risk at a portfolio level.
- In addition to cost savings, this proposed model would be more broadly applicable to non-banks, consistent with the FASB's decision to incorporate consideration of credit risk management into the accounting for financial instruments.
- We believe the existing impairment model for debt securities provides a solid foundation for determining expected cash flows and measuring impairment and as a result of the robust analysis performed at the individual asset level, the "too little, too late" concern is not applicable to assets evaluated individually.
- Our proposal would result in more reliable estimates of impairment by allowing entities to incorporate the type of risk monitoring into the determination of whether impairment is evaluated at the individual or portfolio level. For certain asset types, such as corporate bonds where assets are unique and more precise information is available, impairment would be determined at the individual asset level; whereas for banks, residential loans where information is only available at a higher level, impairment would be determined at the portfolio level.

In the attached appendix to this letter, we specifically address each of the Boards' questions on the SD. Please note that where we do not support the Boards' proposal, we provide thoughts on how our proposal would address the issues. Finally, whether or not the Boards accept and implement our recommendations, we believe it is critical that a comprehensive field test of all significant components of the SD is completed along with a critical evaluation of the results before final deliberations on a final standard take place. This field testing should include both banks and insurance companies.

If the Boards desire a further discussion of our views and proposal, please contact Doug Barnert at (212) 480-0808.

Sincerely,

A handwritten signature in black ink that reads "Kevin Spataro". The signature is written in a cursive, slightly slanted style.

Kevin A. Spataro  
Chair, GNAIE Accounting Convergence Committee

KAS:JE:c11



## Questions from the Financial Instruments: Impairment Supplementary Document

**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?**

We think it is beneficial to address this question in terms of the two separate impairment models that exist for financial assets in current U.S. GAAP (i.e., allowance for loan losses and impairment model for debt securities). It is our belief that the ‘too little, too late’ criticism is directed at the current impairment model for loans and *not* at the impairment model for debt securities.

We believe the existing impairment model for debt securities provides a solid foundation for recognizing and measuring impairment for those instruments. The proposal described in our letter includes an impairment model for debt securities monitored and managed at the individual security level. Our model also incorporates the concept of the ‘good book’ as proposed by the Boards as the impairment recognition model for financial assets monitored and managed at the portfolio level. We believe certain loans could be evaluated at the portfolio level and therefore, the Boards’ model would apply to those portfolios as intended in the SD. Although field testing results would confirm whether the ‘good book’ impairment recognition model addresses the ‘too little, too late concern,’ we believe the model may address the concern by establishing a floor for the impairment allowance and eliminating the probability threshold for impairment recognition. We believe it may result in earlier recognition of impairment compared with the current impairment model for loans. However, it is imperative that the Boards conduct a field testing exercise to understand the results of the application of the SD and to fully evaluate and conclude whether the results of the SD meet the Boards’ objectives.

**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 impairment model proposed in the SD would need to be tested to determine whether it is “at least as operational” for closed portfolios as open portfolios. Pending the outcome of that testing, we do not believe it would be suitable for individually-evaluated assets. That is, if assets continue to be evaluated at the individual level using asset-specific information, we do not believe the ‘good book’/‘bad book’ notion is relevant because that approach presupposes asset-specific information is not available, thus necessitating a pooled approach to credit risk evaluation. Additionally, when sufficient asset, issuer, or borrower-specific information is available for an individual asset, grouping that asset with others and applying expected loss information at a higher level would be inappropriate and result in less meaningful information on expected losses.

As suggested in our letter, we do not believe the accounting for impairment should drive the way in which a company manages, monitors, and evaluates its financial assets; rather the credit risk management model should drive the accounting. For that reason and for the reasons stated in our letter, we believe that it is important to have separate impairment approaches depending on whether the asset is evaluated individually or at a portfolio level.

We do not believe it is important to have a single impairment approach for all financial assets. While we think there should be consistency in the recognition and measurement concepts and objectives between the two approaches, the approaches should also allow for deviations to recognize the difference in the nature of



the assets evaluated under each approach. Please see our cover letter for a detailed description of our proposed impairment approach.

**3. Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the approach described above? Why or why not?**

We would not object to using the proposed approach to recognize the impairment allowance for assets evaluated in a portfolio. However, with regard to the calculation of the impairment allowance for the 'good book,' we believe the calculation of both a time-proportional amount and foreseeable future amount of expected losses every reporting period creates complexity. The two calculations also require the use of different data sets and underlying calculations and assumptions. We understand the Boards' desire to establish a minimum amount of impairment allowance; however, this objective could be achieved more simply with a single calculation of the expected credit losses for the foreseeable future (i.e. the 'floor' in the proposed model).

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

We believe the proposed approach to determining the impairment allowance on a time-proportional basis may be operational for assets evaluated in a portfolio but would need to test the proposed approach to determine whether it is. This amount is determined by using the expected loss for the remaining life, the weighted average age, and weighted average life of the portfolio. We believe that information is currently available and tracked in order to calculate the weighted average age and life of the portfolio. Clearly, determining the expected loss for the remaining life of the portfolio is a more complex exercise that may require more significant judgment.

Although we believe the calculation of a time-proportional amount may be operational, we do not believe establishing two calculation methods for the 'good book' is preferable, and as described in question 3, we support a single calculation of expected credit losses for the foreseeable future. We prefer the 'foreseeable future' approach to determining the impairment allowance on a time-proportional basis because we believe the time-proportional basis may yield questionable results. For example, it may be difficult to project the expected losses over the remaining life of a 10-year bond with precision such that the results would be meaningful. In addition, we question the conceptual integrity of the time-proportional approach since it is not supported by any concept included in the conceptual framework.

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

Please consider the comments below in conjunction with our response to question 9a. We think the immediate and continual recognition of impairment for the 'good book' would not be decision-useful for users of financial statements without requiring an explanation of the continuous recognition of impairment and an analysis of the changes in the composition of the 'good book' to be disclosed in order to understand the changes in the impairment allowance from period to period.

We believe the impairment allowance amount for the 'good book' would not be meaningful for users of financial statements if not supplemented with robust disclosures. Considering the proposed model more broadly, we believe there is significant judgment involved in its application and as a result of the subjectivity and flexibility inherent, comparability will be reduced. In order for a user of financial statements to understand the impairment allowances, the user will need to understand the numerous assumptions and decisions underlying the amounts. The basic principle underlying the model is that it is reflective of an entity's internal credit risk management. Since each entity has a different approach to credit risk



management, a reduction in comparability is unavoidable. In addition to distinguishing between the 'good book' and 'bad book,' comparability will also be reduced as a result of other features of the model, including:

- Non-standard foreseeable future periods,
- Whether a straight-line or annuity approach is taken to calculate the time-proportional amount of expected credit losses,
- Whether a discounted or undiscounted amount is used in calculating the time-proportionate amount,
- Which discount rate is selected (if applicable),
- How the weighted average expected life of a portfolio is determined (i.e., different methods for determining expected prepayments and defaults), and
- Whether the 'good book' impairment allowance reflects the time-proportional amount or foreseeable future period amount of expected credit losses.

Furthermore, each of the assumptions or choices listed above may change from period to period. As the guidance is currently written, there is no requirement to make consistent elections across periods. This may further add to non-comparability.

Notwithstanding the factors above, our preference to incorporate an entity's credit risk management into the model outweighs our concerns relating to non-comparability. We believe there are ways for the Boards to reduce non-comparability while maintaining the alignment of the accounting to an entity's business activity. For example, we believe comparability could be improved if the Boards disallowed the option to use a straight-line or annuity method to calculate the time-proportionate amount and/or if the Boards specified a discount rate to be used. The potential for non-comparability could also be mitigated through expanded disclosure requirements.

From a user perspective, developing an understanding of an entity's impairment allowances will undoubtedly require more time and effort than under current impairment models. As a result, the proposed guidance may not change the method in which investment decisions are made.

We believe our proposal would provide information that is useful for decision-making. Due to the incorporation of an entity's credit risk management model, there would also be inherent non-comparability in our proposal. However, as stated above, our proposal would provide users of financial statements with more insight into the way entities manage credit risk. Furthermore, our model incorporates impairment recognition and measurement concepts from the current U.S. GAAP impairment approach for debt securities. Under our proposal, that methodology would be applied to financial assets evaluated for impairment at the individual level. We believe there is a current understanding and acceptance of that impairment approach in the marketplace. The perception is that it currently provides decision-useful information and as a result, we propose maintaining those concepts for financial assets managed and monitored at the individual level.

**6. Is the requirement to differentiate between the two groups (i.e., 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?**

We believe the requirement to differentiate between the two groups for purposes of determining the impairment allowance is described in sufficient detail, but would be difficult to apply for non-banking institutions that do not currently differentiate their assets in the same manner as described in the SD. We agree with the Boards' objective of providing a principle that could be applied in accordance with an entity's internal risk management. However, we suggest the differentiation be based on the level at which an entity evaluates the credit risk of the asset (individual or portfolio level) and not explicitly based on the 'good book'/'bad book' concept.



**7. Is the requirement to differentiate between the two groups (i.e., '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 stated in our letter, insurance companies do not currently manage their assets in a way that delineates between a 'good book' and 'bad book.' We currently gather the information that we believe would be necessary in making the differentiation but would have to develop specific accounting policies, make processes changes, and make necessary system changes in order to capture the data in a way that conforms to the proposed accounting model. In addition, since the proposal represents a departure from the way in which we currently manage and monitor assets, significant one-time costs would be incurred in educating management and investors and training staff. We believe the requirement may be operational for assets managed in open and closed portfolios but would involve an investment of time and capital to implement. However, we would need to perform field testing in order to determine whether the proposal is operational.

Even though the proposed requirement may be operational for certain assets, operationality does not necessarily indicate that it is the best or most appropriate model to use for those assets. Furthermore, we do not believe that the proposed requirement is operational for individual assets.

GNAIE believes its proposal would better align to the current internal risk management of entities in *all* industries and therefore, it would be more operational and less costly for non-banking institutions to implement.

**8. Do you agree with the proposed requirement to differentiate between the two groups (i.e., 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?**

We do not agree with the proposed requirement to differentiate between the two groups for the purpose of determining the impairment allowance for *all* financial assets subject to impairment. We believe there are certain concepts within that proposed requirement that have merit and therefore we have incorporated them into our overall proposed impairment recognition model. Further, we believe that differentiating assets should be based on an entity's credit risk management approach, not explicitly based on the 'good book'/'bad book' concept. Please see the description of GNAIE's proposed model in the letter.

**9. The boards are seeking comments 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?**

Yes, we do agree with the proposal to require a floor for the impairment allowance related to financial assets evaluated at the portfolio level. However, we do not agree with applying the 'floor' concept to financial assets managed on an individual basis.

Assets evaluated individually

Under the proposed approach, there will be immediate and continuous recognition of impairment on the 'good book' of financial assets. We do not agree with the concept of recognizing credit impairment in net income upon origination, or purchase, of a financial asset. That immediate recognition presumes that there is an expected loss at the time a financial asset is originated or purchased. This would ignore the substance of a contemporaneous third-party transaction, which is that the transaction would not have occurred if the acquirer expected an immediate loss that was not contemplated in the purchase yield. Under the proposed approach, this initial impairment would indicate the financial asset was not originated or purchased at fair value, which again is inconsistent with the substance of the transaction.



Assets evaluated in a portfolio

Although we are not in agreement with the SD on immediate loss recognition for financial assets managed on an individual basis, we recognize that since our proposed model incorporates a 'good book' notion, our model could result in immediate recognition of losses for assets managed in a portfolio. However, that is simply the result of using a portfolio approach to credit risk management where reserves are determined on a general versus specific basis.

Our proposal indirectly addresses the concern stated above since it would allow the flexibility for assets that are newly originated or purchased to be evaluated for impairment at the individual asset level if that is consistent with the way in which the asset is monitored.

- 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?**

The GNAIE proposal incorporates the 'good book' concept into the approach for impairment recognition for financial assets that are monitored at the portfolio level. For assets evaluated at the portfolio level, yes we believe this would be a more reasonable approach than the proposal to require a floor for the impairment allowance of assets monitored at the portfolio level without regard to an early loss pattern. We believe there is a relationship between an early loss pattern and the foreseeable future period. Upon purchase or origination of an asset with an early loss pattern, that pattern would be reflected in the determination of the expected credit losses for the foreseeable future and thus, an impairment allowance would be established immediately.

- 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 stated above, we do not agree with establishing a proposed minimum allowance amount for all performing financial assets. However, we have incorporated the 'good book' concept into our proposal for impairment recognition for those financial assets that are monitored at the portfolio level. In that context, we agree with determining the proposed minimum allowance amounts on the basis of losses expected to occur within the foreseeable future. Insurance company investments in loans sometimes are evaluated on a pooled basis when an individual impairment is not present. The current methodology used considers expected losses over a near term projection period and not over the entire life of the loan. We view this current practice to be consistent with the proposed guidance for determining the minimum amount of the allowance based on a foreseeable future criterion for financial assets that are evaluated for impairment at the portfolio level.

The determination of the foreseeable future period will have a significant impact on the derivation of the floor amount. The concept of the foreseeable future is described in paragraph B11 of the SD as the future time period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections. The IASB has stated that the foreseeable future is a period not less than twelve months. Since the foreseeable future period is a significant factor in determining the floor amount of the impairment allowance, we are concerned that the principle provides too much flexibility in interpretation. Therefore, we believe that further clarity and implementation guidance, including examples, are required should this concept be incorporated into the final standard because if the concept is not clarified, it may result in unintended consequences. For example, we are aware that regulatory bodies in different jurisdictions have certain requirements for time periods over which to calculate expected losses. We



are concerned that this may establish a precedent that is difficult to overcome when determining the foreseeable future period. Furthermore, regulatory precedents differ across jurisdictions. Significant differences in foreseeable future periods across jurisdictions would further reduce comparability and could potentially put companies in certain jurisdictions at a comparative disadvantage. For example, under the requirements of Basel II Advanced Internal Rating-Based Approach, banks would commonly be required to calculate expected losses over a twelve month period. This may set a precedent for the foreseeable future period for European financial institutions. However, in different jurisdictions, such as the U.S., the concept may be interpreted by the regulatory bodies and/or by the auditing firms to be a longer period of time. In that case, U.S. financial institutions would be at a competitive disadvantage. Therefore, it is important for the Boards to reach a converged decision and issue consistent guidance relating to the concept of 'foreseeable future.'

**d. For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?**

Yes, we believe the period of time defined as the 'foreseeable future' could change on the basis of changes in economic conditions. We believe that deteriorating economic conditions and recessions result in increased uncertainty in projections of credit losses. For example, during times of economic crisis, the ability to make specific projections of events and conditions and to make reasonable estimates based on those projections is reduced and therefore, the foreseeable future period would likely be shortened.

**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.**

We believe that for certain portfolios of assets, the foreseeable future period may be greater than twelve months. For example, when analyzing structured securities for impairment, we typically project cash flows over the entire life of the security. However, for other asset classes, such as bank loans, an entity may not be able to estimate expected losses over a period beyond twelve months with sufficient certainty.

**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 recognized 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.**

As stated in our response to question 9c, we have concerns about the non-comparability resulting from the foreseeable future period determination. However, we are not in favor of establishing a bright-line ceiling to address the potential non-comparability, because based on our response to 9e, the foreseeable future is dependent upon the nature of assets being evaluated, and to place a ceiling on the information considered may impact the accuracy of the calculation of expected credit loss. We believe the issue could be mitigated through robust implementation guidance including examples.

**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.**

Whether the floor amount will be equal to or higher than the time-proportional amount is dependent on many different factors, including the asset type, the loss pattern, the length of the foreseeable future, and the



stage of the asset's life cycle. We have some general thoughts in response to this question; however, it is difficult to provide supporting data as insurance companies do not currently apply the concepts of the 'good book/bad book' model to our financial assets. We urge the Boards to conduct field testing on the SD in order to have a thorough understanding of the results of applying the 'good book' model, primarily used by the banking institutions, to industries other than banking.

**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?**

Since GNAIE believes that the Boards should simplify the calculation of the impairment allowance for assets evaluated at the portfolio level to a single calculation of the expected credit losses for the foreseeable future, this question would not be relevant under our proposed model. Under our proposed model, we do not believe the flexibility to use an undiscounted or discounted estimate is necessary. We note that the SD is silent on whether the expected credit losses for the foreseeable future would be a discounted or undiscounted amount, but we would favor guidance requiring an undiscounted estimate.

**12. Would you prefer the IASB approach for open portfolios of financial assets measured at amortized 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 recognize expected credit losses over the life of the assets)? Why or why not?**

No, GNAIE would not prefer the IASB approach for measuring impairment of financial assets measured at amortized cost. We prefer the concepts of the jointly proposed model as applied through GNAIE's proposed impairment model for all financial assets subject to impairment.

**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 recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?**

Yes, GNAIE would prefer the FASB approach (as described on page 18 of the SD) for measuring impairment on assets evaluated in a portfolio to the common proposal. However, as discussed in our response to question 9a, we do not agree with the proposal to require a general reserve related to financial assets managed individually.

The FASB's original exposure draft included a requirement for an entity to consider the impairment at the portfolio (or pooled) level after the individual securities are analyzed to determine whether a credit impairment exists. In situations in which an evaluation of the individual securities indicates no credit impairment exists, we do not believe it is appropriate to recognize credit impairment at the pooled level.



### **Responses to IASB-only Appendix Z Questions**

**14. 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, we agree that the determination of the effective interest rate should be separate (i.e., 'decoupled') from the consideration of expected losses. Consistent with the feedback that the IASB received on its original proposal, we do not believe it would be operational to recognize an effective interest rate that integrates expected credit losses.

**15. 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?**

We do not believe loan commitments should be subject to the impairment requirements. By including loan commitments in the scope of the impairments proposal, there would be added complexity and costs to assess impairment on them. Once the commitments are funded and the loan is recorded in the financial statements, the impairment requirements would then be applied and the timing difference in assessing impairment of the commitment prior to funding would not outweigh the costs and complexity of assessing impairments on those commitments, especially given there is uncertainty in whether the loan commitment would result in the funding of the underlying loan.

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

For insurers, loan commitments are typically not evaluated at the portfolio level. Therefore, we do not believe the 'good book'/'bad book' approach would be operational for those insurer assets. As stated in our response to question 15, we do not believe loan commitments should be included in the scope of the impairment requirements.

We are unsure how the proposed impairment guidance would apply to financial guarantee contracts since we consider financial guarantee contracts to be financial liabilities. We do not believe the proposed model is intended to apply to financial liabilities and therefore, do not believe the guidance should apply to financial guarantee contracts.

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

Yes, we agree with the proposed presentation requirements to separately present interest revenue and impairment losses in the statement of comprehensive income.

**18. (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?**

We generally agree with the proposed disclosure requirements with the exception of the requirements noted below:

- Z6 - Disclosures at the class level. We do not agree with the Board's decision to introduce another basis of grouping assets for disclosure purposes only. If the Board believes that



- portfolios should be defined on the basis of asset classes, then that requirement should be stated within the accounting standard. However, as the disclosure requirements are currently stated within the proposal, it does not seem that assets classes necessarily have a one-for-one relationship to asset portfolios. The disclosures would require entities to provide reconciliations of changes in the allowances for each class of financial assets. This would require entities to allocate portfolio allowance amounts, possibly across multiple portfolios, to asset classes. That seems inconsistent with the portfolio concept underpinning the entire proposed model. Therefore, we do not believe it is appropriate to require disclosures at the asset class level.
- Z12 – Back testing disclosure. We do not agree with the requirement for entities that perform back testing to disclose a quantitative analysis that compares the actual outcomes and the previous estimate of expected credit losses. Although it may be prudent for companies to perform back testing procedures, we believe those procedures may be performed on subsets of the portfolio populations at different points in time. We believe it would be difficult to define a population of assets for purposes of back testing and to define a time period over which to perform the testing in a way that results in a meaningful comparison to the amounts of ‘good book’ and ‘bad book’ allowances recognized.
  - Z15 – Requirement to disclose watchlist information. We do not agree with the requirement to disclose a description and the criteria for including and no longer including financial assets in the watchlist, and to disclose how the watchlist relates to the criteria that determine whether the entities applies to ‘good book’ or ‘bad book’ approach. We believe that this information is proprietary and should not be required to be disclosed. Furthermore, we believe that the resulting disclosure would be too detailed to be meaningful for the user of financial statements and therefore, the costs of providing this information outweigh the benefits.

**19. 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?**

As stated in paragraph BCZ97, “[t]he IASB considered different alternatives for how the amount should be determined that would be transferred with a financial asset between the [‘good book’ and ‘bad book’]...The IASB noted that all three approaches would result in the same effect on profit or loss and that amount in the allowance for the two groups.” Since the ‘good book’ and ‘bad book’ allowances are re-estimated after the transfer, the purpose of deriving this amount is only to satisfy disclosure requirements. We believe that since the allowance amount to be transferred does not have an accounting impact and is only informational, the calculation should not be overly complex or costly. We believe that calculating the related allowance reflecting the age of the financial asset to be transferred is the most complex of the alternatives and therefore, we are not in favor of it. However, we would not object to either transferring all or none of the expected credit loss of the financial asset.