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Director, Regulatory Affairs



April 1, 2011

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Re: IASB Supplement Financial Instruments: Impairment
FASB Supplementary Document: Impairment (File ref: 2011-150)

Dear Sir David and Ms. Seidman:

The Institute of International Finance (IIF) Senior Accounting Group appreciates the opportunity to comment on the boards' joint supplementary document (SD) on impairment. We previously responded to the boards' respective proposals on impairment, i.e. the IASB's November 2009 Exposure Draft (ED) and the FASB's May 2010 proposals on accounting for financial instruments. We welcome the proposed changes in the SD that address operational challenges and other issues identified in those previous proposals.

Most importantly, we welcome the boards' efforts to develop a converged approach to impairment and provisioning. As mentioned in our previous comment letters and submissions, the IIF has for a long time supported convergence. It remains fundamental in the view of the Institute that a single set of high-quality international accounting standards is critical in today's global financial markets. Impairment and provisioning is a matter of importance to financial institutions, regulators and the capital markets as a whole. The recent crisis has highlighted the need to address the "too little, too late" issue as it relates to impairment and provisioning. The IIF has a long-standing view that provisions should be forward looking. Hence, we believe a converged, expected-loss approach is a significant step forward for both boards, despite the comments that we must offer below. Noting that IIF Members are in different stages of assessing and evaluating the SD and have formed different views on more detailed aspects of the proposals, we believe that Members are individually better placed to address specific questions posed in the SD. Hence, we focus on broader concerns in this response.

In our view, the applicability of the common approach to open portfolios, the decoupling of expected credit losses and interest revenue recognition and the introduction of a good and bad book represent improvements to the IASB's November 2009 ED. These changes lead to a closer alignment with internal credit risk management practices of financial institutions. Most Members support the conceptual distinction between the good and the bad book. Although some Members would prefer more clarity in the good book/bad book distinction, Members generally believe that the good book/bad book principle set out in the SD should be workable, recognizing that some judgment will be required to implement it.

We also support the use of all reasonable and supportable information to determine expected losses, including historical data, current economic conditions, as well as justifiable forecasts of future events and conditions. We believe that a good expected loss estimate should incorporate a broad-range of credit information.

Moreover, we are encouraged by the boards' work to produce a converged common approach. We understand the challenges in bringing together two fundamentally different objectives into a single impairment approach. Even within the IIF Senior Accounting Group, views vary among Members on the most appropriate impairment model for financial reporting purposes.

In attempting to bring together the differing objectives of the IASB's and the FASB's original proposals, the common approach set out in the SD raises new issues that did not form part of the boards' previous individual proposals. The most notable innovation is the combination of a time-proportional approach with a foreseeable-future floor for the good book. This change is fundamental and significant and sufficient time should be granted for financial institutions and other constituents including regulators and users to understand and assess this new approach and evaluate its impact.

We believe that a solid conceptual foundation is needed for an impairment model to remain robust over time, to be applicable to a wide range of financial assets (e.g. loans, single or within a portfolio, purchased or originated; loan commitments; financial guarantee contracts), to be applied in a consistent manner by preparers, and to be understood by users of financial statements. We believe that, while matters relating to interpretation of definitions and areas where significant judgment must be applied could be addressed through application guidance and enhanced disclosures, a solid conceptual basis must be clearly articulated as a starting point. In our view, although the SD common approach reflects a converged impairment methodology, it does not reflect a converged conceptual basis, but instead knits together the time-proportional and foreseeable-future approaches (reflecting different objectives) in a way that does not fully satisfy those Members who favor either one or the other of those approaches. As a result it is not at this time possible to reach a favorable conclusion on the common approach as proposed. We believe this fundamental matter deserves to be revisited by the boards before any final requirements are contemplated. We note the SD somewhat narrowly focuses on the operability of the converged impairment methodology to open portfolios. While operability is critical, it is only one of the essential elements of a generally accepted standard for impairment.

In addition, Members are concerned that the SD as drafted is incomplete and therefore does not enable constituents to form a comprehensive view of the whole impairment model that would ultimately be implemented. For example, the disclosures accompanying the common approach are not set out as a common proposal of the IASB and the FASB. Disclosures set out in the SD are presented as IASB only proposals. Disclosures will be an integral part of any expected loss impairment model, given linkages with internal credit risk management policies and processes, critical management judgments needed, accounting policy decisions within the proposed standard, and expected loss estimations involved. Moreover, given the complexity in the common approach set out in the SD, the proposed disclosures must allow users to easily understand the provisions taken and overlay their own judgments on the information provided by management.

We further note that in the introduction the SD sets out a list of issues that are yet to be deliberated by the boards. These include credit impairment requirements for financial assets that are not part of an open portfolio, methods for measuring credit losses, disclosures related to stress testing, vintage information and credit quality, the objective of amortised cost and interest revenue recognition. These are important issues and the boards' proposals on these issues will influence views of preparers and users alike with respect to the impairment model as a whole. While we note the SD aims to address a specific issue raised in the IASB's initial proposals, i.e. application to open portfolios, we believe that the subject of impairment must be addressed holistically, including redeliberation of conceptual differences between the boards, if a meaningful solution is to be achieved.

Given the overall significance of the topic, the introduction of new concepts, outstanding issues that still need to be considered (particularly disclosures), and the complexity and operationality considerations that inevitably accompany implementation of any expected-loss approach, we find the 60 day comment period provided is insufficient for a fully modeled comprehensive analysis. It will only be possible for financial institutions to form a comprehensive view of the common approach and comment on its operationality after running the proposed requirements through actual portfolios which requires more time than what has been allowed. Though some Members have provided results of their initial analysis to the boards, we believe that further analysis and modeling of portfolios with different characteristics and loss patterns will assist in developing more meaningful and informed comments on the SD approach. While it appears the common approach would be more readily operational than some prior proposals, there would certainly be challenges to implementation of the hybrid approach as proposed. Some Members believe it could be highly complex to have to perform multiple estimates, i.e. both foreseeable future estimates and time-proportional approach estimates, for all portfolios at each reporting date. Members generally believe that a cost/benefit assessment of the overall approach must be carefully considered prior to finalization of requirements. Some Members believe the benefits might not outweigh the costs of implementing the common approach.

Hence, we urge the IASB and the FASB to undertake further field-testing, presumably in connection with the conceptual review described above, on the new SD concepts to assess their effects and consider possible unintended consequences. IIF Members stand ready to assist the boards in this area. Moreover, we believe that re-exposure of a complete model that addresses outstanding issues and disclosures is necessary. We are aware of the IASB's intention to finalise impairment requirements by June 2011 as a result of

requests by the G20 and the Financial Stability Board (FSB) to complete the overall convergence agenda in 2011. We share a sense of urgency about the topic. However, given the significance of the topic and the systems and process changes that financial institutions would need to implement in moving to an expected-loss approach, we believe that it is of utmost importance that sufficient time be provided for a full assessment of all elements of the model by all key stakeholders before a final standard is issued.

The IIF Senior Accounting Group appreciates the opportunity to comment on this important topic. We emphasize that our views set out are preliminary and subject to change as a more comprehensive proposal is developed by the boards and further analysis is conducted by Members. The Senior Accounting Group will continue discussions on this topic at its upcoming meetings and will supplement this response with further comments as Members develop further views on this topic.

We remain supportive of the boards' efforts to achieve convergence in this critical area. We believe that with further field-testing, impact studies, clarifications of the proposals and public consultation of a comprehensive impairment approach, the boards will arrive at a joint expected-loss approach to impairment that is conceptually sound, internationally accepted and improves financial reporting. Should you have any questions about this letter or the views expressed, please contact the undersigned (dschraa@iif.com) +1 202 857 3312) or Carol Wong (cwong@iif.com) +1 202 857 3633).

Very truly yours



Cc: Ms. Sylvie Math erat, Member of the Basel Committee, Chair of the Accounting Task Force, Deputy Director General (Operations), Banque de France
Mr. Gerald A. Edwards, Senior Advisor on Accounting and Auditing Policy, Financial Stability Board
Mr. James Kroeker, Chief Accountant, U.S. Securities and Exchange Commission