FRC Roundtable on IFRS 9 – Classification & Measurement and Impairment – 25 February 2013

Classification and Measurement

The meeting began with a presentation on the main proposals in the IASB's ED "Classification and Measurement: Limited Amendments to IFRS 9" and the concerns raised in the UK. Following the presentation there was general discussion in the room. The following is a summary of the main points raised and views shared:

- The inclusion of Fair Value through Other Comprehensive Income (FVOCI) category will bring IFRS 9 much closer to IAS 39.It was considered that IFRS 9 was still more principles based than IAS 39 as it was based on an assessment of the entity's business model.

- Concerns were raised that banks would be hampered in accounting in accordance with their business models as the FVOCI test was mandated instead of being an option. There were concerns that certain financial assets that were managed on an amortised cost basis would be accounted for at FVOCI instead.

- Insurance representatives felt that the proposed amendments in the ED represented an incomplete solution for insurance companies looking to use the third category. This was due to the FVOCI being restricted to bonds but insurers having other financial assets that were managed to fulfil liabilities as they arose. This would lead to a continuing accounting mismatch for financial assets (including derivatives) that are held at FV-PL.

- Concerns were raised with the SPPI test which meant that any amount of leverage would render the financial instrument as at FV-PL. It was noted that the new modification guidance in relation to this test needed further work. Certain countries issued commercial financial products that were to be managed on an amortised cost basis but would fail the test as currently described. This included some French and Chinese bonds, and Brazilian bank deposits.

- There were concerns that the effective date for IFRS 9 (1 January 2015) appeared to be becoming increasingly unachievable. It was clarified by the IASB that the Impairment ED would include a question on the implementation date.

Impairment

There was a presentation on the IASB's proposed impairment model to be included in an ED to be issued during Q1 2013. The discussion focused on understanding the key proposals and some constituents raised points that the IASB may consider in finalising its standard. These included:

- The way the IASB is proposing to categorise financial assets for the purposes of assessing impairment and requiring twelve months' worth of expected losses does not follow the current operational approach to such assets by banks and other financial institutions. Most banks and financial institutions follow the "Good Book –

Watch list – Bad book" approach to managing assets and it may have been helpful to base the accounting model on this approach.

- It was noted that more attention needed to be given to the 12 month loss measurement definition as its determination was sensitive to the discount rates used.

- Is a 30 day past due test relevant in an expected loss model? The test is a lagging indicator of impairment whilst the impairment model is an expected loss model. Therefore, it was felt that the IASB should focus on reasonable and supportable forward looking information when calculating expected losses and that the 30 day past due test should only be permitted as an exception.

- It was felt that insurers, who were buyers of financial assets and did not generally create new financial assets, may have to implement new systems to enable them to collect information for use in the impairment model. This would mean that they would need a pragmatic solution.