Comissão de Normalização Contabilística
Comissão Executiva

Supplementary Document Financial Instruments: Impairment

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?

We agree with EFRAG's view that the approach set out for recognition of impairment as it is described in this supplementary document seems to deal with the weakness of IAS 39, concerning the delay in recognizing credit losses. We also agree that in order to this response be conclusive more field testing shall be performed.

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.

We also support a consistent impairment model for all financial assets carried at amortized cost except those that are classified as short term financial assets.

We stress out however that, this ED defines that short term financial assets based on time value of money is immaterial. Taking this into consideration, we draw your attention that this definition can imply different accounting classification of short term receivables just because the discount rate changes, ie, if the discount rate raises, a short term receivable can immediately be scoped in the ED even if in the year before for the same expected maturity it was scoped out because the discount rate was lower. In our opinion IASB should therefore address this issue on his agenda when deciding the final revision of the standard.

We also believe that at this point in time is hard to assure if the proposed impairment model can be used broadly for closed portfolios and single assets.

Question 5

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

We acknowledge and welcome the IASB attempt to improve the model used currently in IAS 39 without adding complexities, however we believe that the difference between both types of classification should be better explained and more guidance should be added in order to avoid discretionary management classifications and affect the comparability of preparers. Clearer principles are fundamental as well as mandatory disclosures on this subject in order to assure the comparability between preparers and understandability of users as well as possible interactions between both distinct groups. Information such as trigger events and what can lead to different classifications, debt restructurings in a portfolio should be mandatory.

We agree with the principle that financial assets classified as “good book” may recognize impairment allowance using the approach described in the ED, according to expected losses based on existing information.

In regard to the questions 4 and 5 we did not had time enough to explore the pros and cons in wide range application, and we suggest that more field testing should be performed to assure this issue.

Question 8

Do you agree with that 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?

We agree with EFRAG's view on this regard. We believe that guidance and mandatory disclosures shall be provided in order to assure comparability between entities.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2.1(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.

We believe that, although the use of a floor to impairment may not be the most appropriate method to recognize impairment, it will establish some compromise between FASB and IASB accounting rules and avoid important mismatches between entities in both markets.

The recognition of losses varies according to the type of loans and therefore there could be early losses, or losses only after some years, which may be not totally in accordance with the time proportionate model. Having said that, the recognition of impairment allowances in good-book portfolios may not be appropriate even if there is a pattern of early losses because this recognition may vary according with the type of loans analyzed.

IASB in the SD considers that the possible losses expected to occur shall be recognized in time proportionate. We believe that this procedure could consequently lead to the recognition on day one of impairment losses, which it is currently not totally aligned with the principles set out in standards. We think therefore that the up-front allowance approach should be re-thought at least on profitable contracts.

We raise your attention that time proportionate approach should be deeply discussed because this approach may not be totally in accordance with the economic circumstances or economic cycles, what may lead to the recognition of losses inappropriately.

In respect of the definition of foreseeable future be at least 12 months we agree with this time frame because is consistent with IAS 1 and what is considered as current assets. We think however that disclosures shall be mandatory in order to stakeholders of each entity understand what the time horizon's for each entity determines "foreseeable future". We also think that disclosures shall be mandatory when entities decide to change their estimation of this term and the impact in the financial statements that can arise from this change.

In addition we are not supportive of celling approach.

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?

(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?

We agree with EFRAG.

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?

We agree with EFRAG

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 at or after the first reporting date after initial recognition of the financial assets)? Why or why not?

We do not support FASB model as well. We believe that the recognition of losses over the life of the assets in the same way as interest income is recognized would be preferable, in compliance with the matching principle. For this reason we are not totally supportive of up-front allowances.

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?

We support the determination of effective interest rate including expected losses as proposed in the ED, because it gives a better presentation of the return on the assets concerned.

Question 16Z

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

We think that loan commitments should not be treated as the same way as loans and prefer the treatment currently set out in IAS 39, where onerous commitments are treated as liabilities using IAS 37 for measurement purposes. We think that it is not appropriated to treat the recognition on impairment losses on loans commitments that are not in the balance sheet because that is not in compliance with the basic accounting principles. Therefore we believe that impairment losses should only be recognized in assets that are recognized at the reporting date.

Question 17Z

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

We think that the proposed requirements are in line with the other proposals set out in the SD. We accept the proposals set out in this document.

Question 18Z

(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement 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 agree generally with the disclosures presented in the SD, however we think that more detailed disclosures should be provided regarding the amount of financial assets, the total amount of expected losses and impairment losses set out in Z8.

As we previously said since there are some recognition and measurement principles that are based in management judgment, for example the determination of expected future losses, disclosures should therefore be more robust.

Information on the notes should be mandatory regarding how the estimation of expected futures losses are determined, which parameters are used, how the actual tendencies are judged, which assumptions were taken into account. For this, sensitive analysis should also be an important information to provide to all the stakeholders.

We also believe that disaggregated information regarding impairment losses recognized in profit and losses should be mandatory rather than just suggested in the application guidance, as well as more information regarding the judgment behind the classification or reclassification between the two group of loans as set out in the SD.

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?

We would like to ask for more rational and more application guidance on the transfers between the two groups. We agree with IASB on this issue.

Lisbon, 30th March 2011