Accounting Standards Board of Japan (ASBJ)

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1 April 2011

International Accounting Standards Board
30 Cannon Street
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Dear Sir or Madame,

Comments on the Supplementary Document "Financial Instruments: Impairment"

We appreciate the efforts made by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) in the Financial Instruments Accounting Project and welcome the opportunity to express our comments on the Supplementary Document "Financial Instruments: Impairment" (hereinafter referred to as "the SD"). The following views are those of the Financial Instruments Technical Committee within the Accounting Standards Board of Japan.

1. General Comment

We support the objective of the SD, which is to find operational solutions for the difficulties identified in respect of the model proposed in the Exposure Draft (hereinafter referred to as "the original ED") issued in the November 2009, and welcome the efforts by the IASB and the FASB to develop a common approach to the accounting for impairment of financial assets.

We agree with the concept of the proposed impairment model in the SD, which is to distinguish financial assets between the 'good book' assets and the 'bad book' assets based on an entity's risk management and to recognise impairment for the 'good book' assets on the basis of the time-proportionate approach so as to reflect the linkage between the pricing of the assets and the expected credit losses.

However, we have some concerns about always setting up the 'floor' amount for the 'good book' assets. Under the proposed model, the resulting allowance amounts might be the 'floor' amounts even for assets for which an early loss pattern is not expected and the notion of 'foreseeable future period' might be used irrespective of the risk profile of the financial assets.

Therefore, we propose that, for a 'good book' asset, the impairment allowance should be based on the time-proportionate approach, unless there is evidence of an early loss pattern in which case the impairment allowance would be determined at the higher of (a) the time-proportional expected credit losses and (b) the credit losses expected to occur within near-term (see paragraph 15).

However, we would also like to add that some of our members support another alternative (see paragraph 20).

Lastly, although the SD excludes from its scope assets other than open portfolio assets (i.e. individual assets and closed portfolio assets), we believe that all financial assets measured at amortised cost should be subject to a consistent accounting model irrespective of how they are managed, because similar economic events should be consistently accounted for. However, we consider it possible to permit a simplified approach for certain financial instruments (such as short-term trade receivables).

2. Comments on specific questions

Our comments on questions set out in the SD are as follows:

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?

(Comments on Question 1)

1. We consider that the approach for recognition of impairment described in the SD deals with the weakness mentioned in this question. However, we are of the view that our proposal mentioned later in paragraph 15 would be a more appropriate model, because we have some concerns (see paragraphs 9 to 14) about the SD's proposed model.

2. The proposed model in the SD requires an entity to distinguish financial assets between the 'good book' assets and the 'bad book' assets based on an entity's risk management and to recognise impairment (a) for the 'good book' assets, at the higher of the time-proportional expected credit losses and the credit losses expected to occur within a foreseeable future period and (b) for the 'bad book' assets, immediately at the expected losses for the entire remaining period.

3. The following paragraphs describe our views on how an entity should recognise impairment losses for the 'good book' assets and the 'bad book' assets.

(Relationship between business models and the two types of books)

4. The original ED proposed that all items measured at amortised cost under IFRS 9 should be subject to impairment recognition. IFRS 9 requires that a financial asset measured at amortised cost

should be held within a business model whose objective is to hold assets in order to collect contractual cash flows.

5. Paragraph B3 of the SD defines the 'bad book' assets as financial assets of which collectibility has reached a degree of uncertainty that results in the entity's credit risk management objective changing from receiving the regular payments from the debtor to the recovery of the financial asset.

6. We agree with the proposed treatment of impairment losses for the 'bad book' assets, because entities should immediately recognise impairment losses for the expected losses over the remaining life for such 'bad book' assets, considering that the risk management has become different from the initial intent.

7. On the other hand, paragraph B3 of the SD implies that financial assets would be identified as the 'good book' assets if an entity's risk management objective for them is to receive regular payments from debtors. We consider that such 'good book' assets would be managed on a risk management consistent with the initial business model (i.e. to collect contractual cash flows of the assets).

8. Therefore, for those 'good book' assets, allocation using the time-proportionate approach would be appropriate from the viewpoint of the determination of profit or loss by better reflecting the business model. However, we have the following concerns about the SD's proposed impairment model for the 'good book' assets.

（**Concern 1: the notion of foreseeable future period in determining the floor amount**）

9. We believe that determining the floor amount based on the notion of foreseeable future period would not provide useful information for the reasons mentioned below.

10. The use of foreseeable future period might result in the amount of impairment allowance not reflecting the risk profile of the portfolio and therefore impair comparability among entities which have similar types of financial assets. For example, if an entity does not have sufficient historical data, its foreseeable future period may be twelve months even when its portfolio has high credit risk. If another entity has sufficient historical data, its foreseeable future period may be the entire remaining life, even when its portfolio has low credit risk.

11. In addition, the SD states that the length of foreseeable future period would be a fairly constant period that would not change significantly from period to period for a particular portfolio. However, an increase of the market volatility might lead to higher uncertainty for the forecast of the future and therefore shorter length of the foreseeable future period.

（**Concern 2: the complexity of the impairment model**）

12. The common approach combining the IASB approach and the FASB approach would be understandable from the viewpoint of providing sufficient allowances. However, we are concerned that this approach would be too complex because it always requires calculation by both of two approaches (i.e. the time-proportionate approach and the floor based approach). We note that one of the primary objectives for replacing IAS 39 was to simplify the current complex accounting standard.

(Concern 3: Requiring calculation of the floor for all ‘good book’ assets)

13. The SD explains that it adopts the floor amount based on the expected credit losses over foreseeable future periods because the time-proportionate approach may not result in an allowance balance sufficient to cover the expected losses for the financial assets that has an early loss pattern.

14. However, under the SD’s proposed model, an allowance amount can be the floor amount even when an early loss pattern is not identified (see our response to Question 10). Accordingly, the calculation of the floor amount should be required only when it is identified that a portfolio has an early loss pattern.

(The impairment model we suggest)

15. In response to the three concerns raised above, we suggest a modification to the SD’s proposed impairment treatment for the ‘good book’ assets as follows;

    ‘An entity shall recognise an impairment allowance that is the total of:

    (a) for ‘good book’, the time-proportional expected credit losses, or when there is evidence of an early loss pattern, the higher of:

    (i) the time-proportional expected credit losses; and

    (ii) the credit losses expected to occur within the near-term; and

    (b) for ‘bad book’, the entire amount of expected credit losses.

    The ‘near-term’ mentioned in (a) shall be no less than twelve months after the entity’s reporting period ending date and shall be determined, on the portfolio-by-portfolio basis, depending on the risk profile of each portfolio (see paragraph 47 (our response to Question 9)).’

16. Under our suggestion, in many cases an entity would recognise impairment losses over the remaining life of the assets as under the original ED, better reflecting the economics of the lending activities. And when there is evidence of an early loss pattern the resultant allowance amount would be sufficient to cover the expected losses before they occur.

(Another alternative)

17. Some of our members support the alternative described in paragraph 20 below, because they have the following concern about the time-proportionate approach, while they share the concern 1 and 2 mentioned in paragraphs 9 to 12.

(Concern 3#: An allowance balance would dependent on the length of weighted average age.)

18. The time-proportionate approach, by its nature, would result in different amounts of allowance balance for financial assets of similar credit risk profile, depending on the weighted average age, even when their weighted average remaining life and expected credit losses are similar. We acknowledge that such consequence would also result from the expected loss model proposed in the original ED.

19. However, some of our members note that, in an open portfolio, financial assets that have been originated at different times are grouped on the basis of similarity of characteristics at the reporting period ending date. They consider that the difference of the allowance balances resulted from the timing of their origination would not reflect an entity's risk management of those assets.

20. In response to the concern 3# above together with the concern 1 and 2, they consider that the proposed impairment model could be improved as follows;

    'An entity shall recognise an impairment allowance that is the total of:

    (a) for 'good book', the credit losses expected to occur within the near-term; and

    (b) for 'bad book', the entire amount of expected credit losses.

    The 'near-term' mentioned in (a) shall be no less than twelve months after the entity's reporting period ending date and be determined, on a portfolio-by-portfolio basis, depending on the extent of risk profile of each portfolio (see paragraph 47 (our response to Question 9)).

21. Under this alternative, an allowance amount for 'good book' would be always determined to cover the expected losses for the near-term future period before they occur. And the expected losses beyond that period would be recognized in future periods. In addition, this alternative is simpler than the SD's proposed model in that the calculation by two approaches as mentioned in paragraph 12 would be unnecessary.

22. In addition, some of constituents who support this alternative are concerned that the alternative in paragraph 20 might result in an insufficient allowance balance for a portfolio with a back-loaded loss pattern. They therefore argue that the amount of impairment to be immediately recognised should be the amount for the near-term period based on the average annual expected losses for the average remaining life of the portfolio.

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.

(Comments on Question 2)

23. We consider that the SD's proposed impairment model would be operational for closed portfolios and other instruments as it is for open portfolios.

24. We believe that all financial assets measured at amortised cost should be subject to a consistent accounting model irrespective of how they are managed, because similar economic events should be consistently accounted for. However, we consider it possible to permit a simplified approach for certain financial instruments (such as short-term trade receivables).

Question 3

Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above?

Why or why not?

Question 4

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

Question 5

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

(Comments on Question 3)

25. We agree with the approach that the expected losses for the 'good book' assets should be allocated over the remaining life of the assets based on the time-proportionate approach rather than immediately recognising the entire amount.

26. However, as mentioned later in our response to Question 5, we disagree with the proposal to determine the allowance amount at the higher of the time-proportional expected credit losses (depending on the age of the portfolio) and the credit losses expected to occur within the foreseeable future period (being a minimum of twelve months).

(Comments on Question 4)

27. We have a concern that the time-proportionate approach might give rise to the following operational problems in determining the weighted average age and life.

28. For a financial asset with the debtor's prepayment option, the weighted average age and life would be differently determined depending on whether to take account of past history of the principal balance and the allowance amount would differ accordingly. Therefore, if the time-proportionate approach is to be adopted, additional guidance or additional disclosure requirement about how to determine the average age and life would be necessary.

(Comments on Question 5)

29. The proposal to recognise the entire amount of the future expected losses for the 'bad book' assets, which are identified on the basis of the entity's judgment about collectibility, would provide useful information to users.

30. In contrast, regarding the 'good book' assets, we have a concern as mentioned below about whether the proposed approach would provide useful information.

31. The requirement to recognise impairment allowance at the higher of the time-proportional expected credit losses and the credit losses expected to occur within the foreseeable future period might lead to the accounting consequence that is difficult for users to understand, even with enhancement of related disclosure.

32. Therefore, as mentioned later in our response to Question 9, determination of the floor amount should be required only in the circumstances where there is evidence of an early loss pattern.

Question 6

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

Question 7

Is the requirement to differentiate between the two groups (ie '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?

Question 8

Do you agree with the 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?

(Comment on Question 6)

33. We consider that paragraph 3 of the SD clearly describes the requirement to differentiate between the two groups for the purpose of determining the impairment allowance based on the degree of

uncertainty of collectibility of a financial asset.

(Comments on Question 7)

34. In our view, the requirement to differentiate the 'bad book' on the basis of an entity's risk management would be operational and auditable, if the entity manages credit risk on a basis of the uncertainty of collectibility of the asset and such credit risk management is appropriately documented and disclosed in its financial statements.

35. The Expert Advisory Panel (EAP) pointed out that most of financial institutions today manage credit risk by differentiating between performing assets ('good book') and non-performing assets ('bad book'). The EAP discussed that loans in the 'bad' book are managed on a more active and detailed basis (frequently on an individual basis), with the result that the amount of the expected losses could significantly fluctuate. Conversely, statistical approaches on a portfolio level are applied to the 'good' book assets.

36. We suppose that the reason why financial institutions identify 'bad' book assets is that they consider those assets to be no longer collectible and thus need to manage those assets differently from their initial intent (i.e. collection of the related contractual cash flows). On the other hand, 'good' book assets are considered to remain collectible for the credit management purpose.

37. In contrast, when an entity's credit risk management is not based on uncertainty of collectibility, the SD would require identification of the 'bad book' when the focus has shifted from managing the return from the interest charged to managing the recovery of the financial asset.

38. The SD refers to the case that management identifies loans as doubtful (sometimes referred to as 'problem loans') as one of criteria for identifying the 'bad book' when an entity's credit risk management is not based on uncertainty of collectibility. Such description in the SD might lead to a concern in terms of operationality and auditability. The term 'problem loans' might be interpreted differently among entities and it could result in significant difference of the interpretation about when to consider that the assets should no longer be included in the 'good book'. Therefore, the final standard should provide additional guidance on this point.

(Comments on Question 8)

39. We agree with the proposed requirements to differentiate between the two groups for the purposes of determining the impairment allowance.

40. The IASB and the FASB have developed a model that treats the initial expected losses and subsequent changes in the expected losses equally to address open portfolios. Its result would be that part of expected losses would be allocated to future periods rather than immediately recognised.

41. However, if such treatment were to be applied to all financial assets, part of expected losses would be recognised in future periods for financial assets for which the entity's credit risk management objective is other than receiving a regular payment from a debtor.

42. Therefore, in order to avoid delay in recognition of impairment losses for a financial asset of which credit risk have deteriorated to a certain extent, such an asset should be identified as the 'bad book' and its expected losses should be immediately recognised in full.

Question 9

The boards are seeking comment 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?

(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?

(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?

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

(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.

(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 recognised 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.

Question 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.

(Comments on Question 9(a))

43. We disagree with the SD's proposal to always require a floor for the impairment allowance related to the 'good book', as mentioned in our response to Question 9(b) below.

(Comments on Question 9(b))

44. We support this alternative, because the allowance amount under the time-proportionate approach would be sufficient to cover the expected losses before they occur unless there is evidence of an early loss pattern.

(Comments on Question 9(c) and 9(d))

45. We disagree that the floor amount should be determined on the basis of losses expected to occur within the foreseeable future, because it would not provide information useful to users for the reasons mentioned in paragraph 10 and 11.

46. Therefore, we consider that the period to be referenced in determining the floor (referred to as 'near term' in our response to Question 1) should be linked with the credit risk profile of each portfolio rather than the term 'foreseeable period'. For the purpose of ensuring a sufficient allowance amount, the focus should be on collectibility of the financial asset (that is, credit risk) rather than an entity's ability to foresee the future.

(Comment on Question 9(e) and 9(f))

47. We consider that the period to be referenced in determining the floor would be generally the length of the next accounting period (twelve months) from the viewpoint of ensuring a sufficient allowance amount for the 'good book'. However, for certain 'good book' assets of relatively higher credit risk, this period could be longer than twelve months with no specific ceiling.

(Comments on Question 10)

48. We consider that the floor would be equal to or higher than the amount calculated in accordance with the time-proportionate approach, in the cases described in paragraphs 49 to 52 below, in addition to the case where there is evidence of an early loss pattern. The possibility of the floor being used in such cases, might lead to consequences different from the IASB's intention in using the floor (i.e. ensuring a sufficient allowance amount to cover the expected losses before they occur when there is evidence of an early loss pattern, while adopting the time-proportionate approach in principle).

When a foreseeable future period is significantly longer than twelve months

49. As mentioned in our response to Question 9, foreseeable period under the SD could be significantly longer than twelve months to the extent that a reasonable estimate is possible based on specific projections of events and conditions. In these cases, the floor can be equal to or higher than the amount calculated in accordance with the time-proportionate approach.

When a foreseeable future period is long for the contractual life of assets

50. For an open portfolio in which changeovers of financial assets are constant, the weighted average age would be approximately half as long as the contractual life. For such stable open portfolios, if a foreseeable period is longer than a half of the remaining life, the floor would be higher than the amount calculated in accordance with the time-proportionate approach, even when the loss pattern is even over the life of the portfolio.

51. Assume that a portfolio has a contractual life of 4 years and a foreseeable period of twelve months. For a constant portfolio composed of financial assets with an even loss pattern, the average age and the average remaining life would be 2 years (i.e. half of the average life of 4 years). Under the time-proportionate approach, the allowance amount would be half of the future expected losses (the average remaining life divided by the average life) and the floor would be also half of the future expected life (the foreseeable period divided by the average remaining life). Consequently, for a constant portfolio with the average life of shorter than 4 years, the floor would be higher than the amount calculated in accordance with the time-proportionate approach.

52. The example above could be illustrated as shown in the table below. For a constant portfolio that has an average life shorter than 4 years (such as Portfolio A, of which average life is 2 years), the allowance amount would be the floor amount. And, for a constant portfolio that has an average life longer than 4 years (such as Portfolio C, of which average life is 6 years), the allowance amount would be the time-proportional amount.

Impairment allowance- straight-line approach and "higher of" test								
Portfolio	Expected credit losses over remaining life	Weighted average age	Weighted average life	Annual amount	Time-proportional amount(TPA)	Foreseeable future period(FFP)	FFP expected credit losses (Floor)	Impairment allowance
	A	B	C	D=A/C	E=A*（B/C）=B*D	F	G	H=higher of E&G
A	100	1year	2years	50	50	1year	100	100(Floor)
B	100	2years	4years	25	50	1year	50	50（TPA＝Floor）
C	100	3years	6years	17	50	1year	33	50（TPA）

In the table above, the expected losses of 100 are assumed to occur evenly over the remaining life.

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?

(Comment on Question 11(a))

53. Use of a discounted estimate would be more appropriate than an undiscounted estimate, from the viewpoint of achieving the allocation pattern of expected losses approximating that under the original ED. However, requiring use of a discounted estimate would not be practicable, considering that the levels of the related IT systems vary from one entity to another. Therefore, we agree with the flexibility permitted to use an undiscounted estimate.

(Comment on Question 11(b))

54. We consider it useful to provide an additional guidance on determining an appropriate discount rate, in response to practical concerns about determining a discount rate on a portfolio level.

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?

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)? Why or why not?

(Comments on Question 12)

55. As mentioned in our response to Question 1, for the ‘good book’ assets, allocation of expected losses using the time-proportionate approach, rather than immediately recognising the entire amount of the expected losses, would be appropriate from the viewpoint of the determination of profit or loss better reflecting an entity’s business model.

56. However, as mentioned in our response to Question 9, for an early loss pattern, the floor should be invoked to ensure a sufficient amount of allowance to cover expected losses before they occur.

(Comment on Question 13)

57. As mentioned in our response to Question 1 and 9, we do not support the FASB approach (i.e. to recognise currently credit losses expected to occur for the foreseeable future).

> **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?

(Comment on Question 14Z)

58. We agree that the determination of the effective interest rate should be separate from the consideration of expected losses, in order to make the allocation of expected losses operational for open portfolios.

> **Question 15Z**
> 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?
> **Question 16Z**
> Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

(Comment on Question 15Z)

59. We agree that such loan commitments should be subject to the impairment requirements proposed in the SD. The same impairment model should be applied to both loans and loan commitments, because they are typically managed within the same business model.

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(Comment on Question 16Z)

60. We note that, in March 2011, the IASB and the FASB tentatively decided to retain the existing treatment of financial guarantee contracts in IFRS 4 that an entity may elect to apply IAS 39 or IFRS 9 unless the issuer has previously asserted explicitly that it regards such contracts as

insurance contracts and has used accounting applicable to insurance contracts.

61. We consider that the proposed requirements would be operational if applied to loan commitments and financial guarantee contracts.

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

(Comment on Question 17Z)

62. We agree with the proposed presentation requirements, because, under the decoupling approach (Question 14) proposed in the SD, interest revenue would be determined based on the effective interest rate excluding the allocation of expected losses.

Question 18Z (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? **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?

(Comment on Question 18Z(a))

63. We agree with the proposed disclosure requirements, except for the points mentioned in paragraph 64 below. Under the proposed impairment model, we support the SD’s concept to require an entity to disclose its credit risk management policies including the way how it differentiates the ‘good book’ and the ‘bad book’.

64. However, we note the following concerns raised by some preparers about the disclosure requirements in the SD. In terms of these points, it would be useful to consider the level of disclosure consistent with the existing disclosure requirements including those of IFRS 7.

- Considering that banks already disclose a certain level of information based on the Basel capital requirements, unnecessary duplication should be avoided.

- Some of the inputs, assumptions and estimation techniques used in determining expected credit losses may be sensitive information of financial institutions. Therefore, detailed disclosure of them would be inappropriate.

(Comment on Question 18Z(b))

No comments

(Comment on Question 19Z)

65. The IASB and the FASB considered three approaches, including the SD's proposed approach, for how to determine the allowance amount to be transferred with a financial asset between the 'good book' and the 'bad book'. We note that all three approaches would result in the same effect on profit or loss and the allowance amount for the two books. However, from the viewpoint of ensuring comparability among entities, requiring a single approach to the transfer would be desirable.

66. We consider that the approach of transferring the full allowance amount ('full depletion') would be more useful, because it would provide information useful in understanding whether the allowance amount previously recognised for the 'good book' was sufficient at the time of a transfer from the 'good book' to the 'bad book'.

67. We also note that the SD does not sufficiently explain why the proposed approach of transferring an amount of the related allowance amount reflecting the age of the loan would be more appropriate than these two other alternatives.

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We hope our comments will contribute to the forthcoming deliberations in the project.

Yours sincerely,

Atsushi Kato
Chairman of the Financial Instruments Technical Committee
Vice Chairman of the Accounting Standards Board of Japan