Issue 3, December 2015

KPMG

IFRS 9 Impairment
IFRS Newsletter

ITG members provided insights across a number of implementation issues, including the use of forward-looking scenarios.

What happened in December 2015?

At its third substantive meeting – in December 2015 – the IFRS Transition Resource Group for Impairment of Financial Instruments (the ITG) discussed a number of issues that were submitted by stakeholders.

ITG members provided useful clarification on a number of challenging practical issues. Some of the main points on which ITG members appeared to agree were as follows.

- The objective of IFRS 9 Financial Instruments is to achieve an unbiased and probability-weighted estimate of expected credit losses (ECLs). Therefore, when incorporating forward-looking scenarios, an entity should consider the range and probabilities of different outcomes (see Issue 1.1).
- The Chair emphasised that the exception in paragraph 5.5.20 of IFRS 9 was meant for a narrow set of circumstances. It is relevant where there is an inter-relationship between the drawn and undrawn amounts that are not distinguished for risk management purposes (see Issue 2).
- A charge card agreement might include no commitment to extend further credit (see Issue 3).
- When determining the period over which an entity is expected to be exposed to credit risk (when applying paragraph 5.5.20), an entity should consider the credit risk management actions that management expects to carry out and that serve to mitigate ECLs (see Issue 4).
- An entity may include cash flows expected from the sale of a defaulted loan in measuring ECLs (see Issue 6).

Next steps

For each issue submitted, the IASB will consider what action – if any – is required.

Currently, no further physical ITG meetings are scheduled. However, the Chair indicated that the ITG will continue to exist, and should stand ready in case any subsequent issues for discussion emerge. The Chair said that stakeholders could continue to submit questions, and that a decision would then be taken on next steps. One potential outcome would be the publication of educational material.

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Agenda papers discussed at the December meeting

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Other issues discussed at the December meeting

The Chair reported that the IASB had discussed in October whether it would be appropriate to include amounts in excess of the contractual credit limits when estimating future draw-downs in respect of the undrawn element of revolving credit facilities.[1] The IASB acknowledged the issue but did not propose that any further action be taken. This was mainly because the requirements of IFRS 9 are clear on how ECLs should be measured, despite the concerns raised on this particular matter.

The IOSCO representative at the meeting emphasised the importance of clear disclosures in explaining to users the judgements and estimates that entities make in applying the IFRS 9 impairment model.

Descriptive and summary statements in this newsletter are based on notes that have been taken in observing the IFRS Transition Resource Group for Impairment of Financial Instruments (the ITG). They are not intended to be a substitute for the final texts of the relevant records or the official summaries or minutes of ITG discussions which may not be available at the time of publication and which may differ. Entities should consult the texts of any requirements they apply and the official summaries of Board meetings and ITG meetings, and seek the advice of their accounting and legal advisors.

1. The issue was originally discussed in Agenda Paper 3 of the September 2015 ITG meeting (see our IFRS Newsletter: IFRS 9 Impairment – Issue 2) and again at the October IASB meeting (see our October web article).

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1. Incorporation of forward-looking scenarios

1.1 When measuring ECLs can entities use one single forward-looking economic scenario, or do they need to incorporate more than one forward-looking economic scenario and, if so, how?

What's the issue?

The objective in measuring ECLs is to determine an *unbiased* and *probability-weighted* estimate of credit losses by evaluating *a range of possible outcomes*[2].

The following questions were posed to the ITG.

- Are single or multiple forward-looking economic scenarios required in measuring ECLs?
- How should an entity incorporate multiple forward-looking economic scenarios into the measurement of ECLs?
- What sources of information are used to determine forward-looking scenarios?

The submitter identified the following possible approaches to incorporating multiple forward looking-scenarios.

Methods	
1	Use a single forward-looking economic scenario that represents the most likely scenario.
2	Use a single forward-looking economic scenario that represents the weighted average of all the scenarios considered, weighted by the likelihood of occurrence for each scenario.
3	Estimate ECLs for each of the scenarios considered, and weight the outcomes based on their probabilities.
4	Use the most likely scenario (as in Method 1) and apply an 'overlay' adjustment so that the ECLs also reflect the less likely scenarios.

A simple example was given. Assume that an economist predicts that future unemployment is most likely to be 5% over the next year, but that it could be:

- 4% (a 20% likelihood, in which case ECLs would be 30);
- 5% (a 50% likelihood, in which case ECLs would be 70); or
- 6% (a 30% likelihood, in which case ECLs would be 170).

In this scenario, ECLs would be measured as follows.

- Method 1: 70, based on the most likely scenario.
- Method 2: future unemployment would be predicted as 5.1%, being (4% x 0.2) + (5% x 0.5) + (6% x 0.3).
- Method 3: 92, being (30 x 0.2) + (70 x 0.5) + (170 x 0.3).

2. Paragraph 5.5.17 of IFRS 9.

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ITG members appeared to agree that the objective of IFRS 9 is to achieve an unbiased and probability-weighted estimate of ECLs.

What did the ITG discuss?

Issue	ITG discussion
Can an entity use a single forward-looking scenario in estimating ECLs?	ITG members appeared to agree that the objective of IFRS 9 is to achieve an unbiased and probability-weighted estimate of ECLs. This means that an entity should consider the range and probabilities of different outcomes.
What methods of incorporating multiple forward-looking scenarios are acceptable?	ITG members appeared to agree on the following. – When there is significant non-linearity across the outcomes of different forward-looking scenarios, then basing the estimate of ECLs on the results of only one scenario – e.g. a best estimate or using the mean of multiple parties' best estimates of inputs – would not achieve this objective. – IFRS 9 does not require a specific method, and so different methods may be appropriate – an entity should use an approach consistent with the measurement objective. – An entity's estimate of ECLs reflects reasonable and supportable information that is available without undue cost and effort about forecasts of future economic conditions. Therefore, the approach that is used would depend on what reasonable and supportable information is available without undue cost and effort – this might vary by entity, jurisdiction and portfolio (including the significance of the portfolio). – It is important that the scenarios used to estimate ECLs are consistent with information used by the entity for other purposes – e.g. capital models, budgeting – but there may be valid differences – e.g. if information was prepared for a different point in time.
Can an entity rely on its own internal projections, or does it need to take into account external projections?	Many ITG members noted that, although ECLs are entity-specific estimates, an entity is required to use reasonable and supportable information that is available without undue cost and effort; therefore, they would expect external information to be considered in developing and validating an entity's internal estimates. Some ITG members thought that external projections may not be sufficiently granular to estimate ECLs for specific portfolios of instruments.

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1.2 How should an entity take into account forward-looking economic scenarios when determining whether there has been a significant increase in credit risk?

What's the issue?

Information used to determine whether there has been a significant increase in credit risk has to include reasonable and supportable forward-looking information if it is available without undue cost or effort[3].

The issues identified by the submitter were:

– whether more than one forward-looking economic scenario should be considered; and

– how to incorporate forward-looking economic scenarios into the assessment of significant increases in credit risk.

The submitter suggested the following potential approaches.

Approaches	
A	Consider the change in risk of default since initial recognition using a single forward-looking economic scenario. This is consistent with Method 1 for Issue 1.1 above.
B	Consider the change in the probability-weighted risk of default using multiple economic scenarios (the weights are the likelihood of each scenario occurring).
C	Use each forward-looking scenario individually to allocate a proportion of the portfolio as having increased significantly in credit risk. For example, if it is determined that a 6% unemployment rate would lead to a significant increase in credit risk for a portfolio of instruments, and there is a 30% probability of that scenario occurring, then credit risk would be deemed to have increased significantly for a 30% portion of the portfolio.

3. Paragraph 5.5.11 of IFRS 9.

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IFRS 9 does not prescribe a single method, and so different approaches are possible.

What did the ITG discuss?

Issue	ITG discussion
Which one of the suggested approaches is appropriate?	ITG members appeared to agree on the following. – IFRS 9 does not prescribe a single method, and so different approaches are possible. – However, similar to the issue raised in Issue 1.1, an entity should consider a range of scenarios. – An entity's approach will depend on the criteria it uses to identify significant increases in credit risk, which may include quantitative and qualitative factors. – There may not be a direct mapping between the impact of different scenarios on the measurement of ECLs and on the assessment of significant increases in credit risk, because the latter is based on increases in risk of default, while the former measures the amount of expected loss. For example, for strongly over-collateralised portfolios, changes in economic variables may have little impact on the amounts of credit losses expected to occur, but a large impact on the risk of default. – However, to the extent that it is relevant, in assessing significant increases in credit risk, an entity would be expected to use reasonable and supportable information that is consistent with that used in measuring ECLs.

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2. Scope of paragraph 5.5.20 of IFRS 9

What's the issue?

IFRS 9 states that the maximum period over which ECLs are measured is the maximum contractual period (including extension options) over which the entity is exposed to credit risk[4]. However, paragraph 5.5.20 of IFRS 9 provides an exception for financial instruments:

– that contain both a loan and an undrawn commitment component; and

– for which the entity's contractual ability to demand payment and cancel the undrawn commitment does not limit its exposure to the contractual notice period.

Paragraph B5.5.39 of IFRS 9 provides examples of the general characteristics of financial instruments to which the exception in paragraph 5.5.20 applies.

The submitter asked the following questions:

– whether the characteristics in paragraph B5.5.39 should be considered as required characteristics, or merely examples of typical characteristics, when applying the exception in paragraph 5.5.20; and

– whether either of the following characteristics would prevent a facility from being in the scope of paragraph 5.5.20:

  - a facility has fixed maturity – e.g. five years – but is immediately revocable at the discretion of the lender; or

  - a facility has no fixed maturity and is immediately revocable at the discretion of the lender, but when drawn the resulting loan has a fixed maturity – e.g. five years.

The Chair emphasised that the exception in paragraph 5.5.20 was meant for a narrow set of circumstances.

What did the ITG discuss?

Issue	ITG discussion
Do all characteristics in paragraph B5.5.39 have to be present for an instrument to be in the scope of paragraph 5.5.20?	ITG members appeared to agree on the following. – An instrument does not have to have all of the example characteristics in paragraph B5.5.39 to be in the scope of paragraph 5.5.20. – However, paragraph B5.5.39 assists in and reinforces the analysis of whether an instrument meets the requirements set out in paragraph 5.5.20. Therefore, if one or more of the characteristics described in B5.5.39 is not present, the entity will need to consider carefully whether an instrument could still meet the conditions set out in paragraph 5.5.20. For example, if an instrument is not managed on a collective basis, a question will arise as to whether the entity's contractual ability to demand repayment and cancel the undrawn commitment really would not limit the entity's exposure to credit losses to the contractual notice period.

4. Paragraph 5.5.19 of IFRS 9.

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Determining the unit of account may require judgement based on the specific facts and circumstances, including how facilities are managed.

Issue	ITG discussion
	The Chair commented that the IASB had intended the exception in paragraph 5.5.20 to apply to a narrow set of circumstances. It was noted that paragraph 5.5.20 is relevant for instruments where there is an inter-relationship between the drawn and undrawn amounts that are not distinguished for risk management purposes but rather treated as a single set of cash flows – e.g. the drawn and undrawn components have similar risk characteristics.
What is the unit of account for determining whether instruments are in the scope of paragraph 5.5.20?	The following points were made. – Determining the unit of account may require judgement based on the specific facts and circumstances, including how facilities are managed. – Multi-purpose or combined facilities may have more than one unit of account, even if they result from a single contractual agreement. For example, an entity may grant a facility that comprises both a mortgage loan and a credit card agreement. – It would not be possible to conclude that an instrument that comprises only an undrawn commitment or only a drawn loan meets the exception in paragraph 5.5.20, because it would not have both components. – If drawings under a facility will have a fixed repayment term, then judgement may be required in determining whether the exception in paragraph 5.5.20 is met. This would include considering whether the nature of the drawn term is consistent with the drawn and undrawn components having similar risk characteristics based on the entity's ability to demand repayment and cancel the facility – as opposed to the period of exposure being a longer fixed term. For example, if the borrower draws a loan with a fixed term of five years, then this would seem inconsistent with paragraph 5.5.20 and the maximum period to consider for the drawn portion would be five years. However, if the borrower draws down short-term advances that would be expected to roll-over, then this may be consistent with paragraph 5.5.20.

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3. Measurement of ECLs for charge cards

A charge card agreement might include no commitment to extend further credit.

What's the issue?

At its September 2015 meeting, the ITG noted that an entity is not permitted to consider expected future draw-downs in excess of the contractual credit limit agreed with the customer[5].

Building on that discussion, the submitter of the issue discussed in December 2015 asked how the contractual limit should be determined for a type of charge card.

One feature of the charge card described in the submission is that:

- no absolute spending limit is agreed with the customer; and
- the issuer approves each customer transaction at the time of sale based on the customer's perceived spending capacity, using statistical models and spending history.

The submitter suggested two possible views on the contractual credit limit – i.e. that it is either:

- zero, because each transaction is approved at the point of sale and can be declined at that time; or
- unlimited, because there is no contractually agreed limit.

What did the ITG discuss?

Issue	ITG discussion
What view did ITG members take for the specific fact pattern in the submitted example?	For the specific fact pattern described – i.e. where there is no stated contractual limit and the card issuer has and exercises discretion over whether to approve individual transactions at the time – ITG members appeared to agree that: – the undrawn commitment is zero; and – consequently, as there is no undrawn element, the charge card is outside the scope of paragraph 5.5.20 of IFRS 9.

5. See the discussion of Agenda Paper 3 in our IFRS Newsletter: IFRS 9 Impairment – Issue 2.

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4. Period over which to measure ECLs for revolving credit facilities

An entity should consider the credit risk management actions that management expects to carry out and that serve to mitigate ECLs.

What's the issue?

IFRS 9 requires that, for instruments falling into the exception in paragraph 5.5.20 of IFRS 9 (see Issue 2, above), ECLs are measured over the period for which the entity is exposed to credit risk and would not be mitigated by credit risk management actions.

One submitter asked how the beginning and the end of this period of exposure should be determined.

A second submitter asked for clarification as to whether an entity should consider:

- *all* credit risk management actions that it is legally and operationally able to take, or only those that it expects to take; and
- only those credit risk management actions which serve to mitigate credit risk, or *all* credit risk management actions – i.e. including actions that do not mitigate credit risk, such as the reinstatement of previously curtailed credit limits.

What did the ITG discuss?

Issue	ITG discussion
What credit risk management actions should be considered in estimating the exposure period?	ITG members appeared to agree on the following. – The credit risk management actions that should be taken into account are those that management expects to carry out and that serve to mitigate ECLs. This means that the future reinstatement of limits – e.g. after curing a delinquency – is not taken into account. This represents a change from comments made at the April 2015 ITG meeting[6]. – An entity does not have to demonstrate that it has taken similar actions in the past as long as it has reasonable and supportable information that it expects to take those actions in future.
Drawn and undrawn component of a facility	Although paragraph 5.5.20 applies to instruments where drawn and undrawn components are managed together as a single exposure, for the purpose of estimating the period of exposure – and the amount of exposure at default – they have a different impact. This is because the credit risk associated with the undrawn element is immediately eliminated if the entity cancels the undrawn element, but the exposure on the drawn component remains until the balance has been recovered (or written off).
Other points noted	The starting point for estimating the period of exposure is the reporting date, because this is the date at which ECLs are measured. ITG members acknowledged the importance of appropriately disclosing an entity's approach to estimating the period of exposure.

6. See the IASB meeting summary on Agenda Paper 4 for the April 2015 ITG meeting. ITG members noted then that the probability of assets defaulting and curing would have to be taken into account.

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5. Collateral and other credit enhancements and the measurement of ECLs

Credit enhancements might be considered integral to the contractual terms even if they are not an explicit part of the contractual terms.

What's the issue?

The definition of 'credit loss' in Appendix A of IFRS 9 states that the cash flows to be considered in estimating ECLs "shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms".

Paragraph B5.5.55 of IFRS 9 requires an entity to include cash flows from collateral and other credit enhancements – e.g. insurance contracts or financial guarantee contracts – in measuring ECLs "if the credit enhancement is part of the contractual terms and not recognised separately by the entity".

The submitter questioned what is meant by 'part of' or 'integral to the contractual terms.' IFRS 9 does not provide further guidance in this area.

What did the ITG discuss?

Issue	ITG discussion
When are collateral and other credit enhancements integral to the contractual terms of a financial instrument?	ITG members appeared to agree on the following. – Credit enhancements do not have to be explicitly part of the contractual terms to be considered integral to those terms. The determination of what is integral to the contractual terms requires judgement. – Double-counting of credit enhancements would not be appropriate. Therefore, an entity does not include cash flows from collateral or other credit enhancements in the measurement of ECLs if the enhancement is recognised separately. – Similar judgements may be made when applying IAS 39 *Financial Instruments: Recognition and Measurement*. However, one ITG member noted that there may currently be some diversity in practice in this area under IAS 39.

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6. Inclusion of cash flows expected from sale of a defaulted loan in the measurement of ECLs

An entity may include cash flows expected from the sale of a defaulted loan in measuring ECLs.

What's the issue?

Appendix A of IFRS 9 defines credit losses as the difference between:

- contractual cash flows that are due to the entity in accordance with the contract; and
- cash flows that the entity expects to receive.

The submitter noted that it is not clear whether 'cash flows that the entity expects to receive' should include cash flows that are expected to be recovered through the sale of a defaulted loan to a third party. The submitter noted that some entities have a policy to sell all loans of a particular type once they reach a certain delinquency point. In these cases, the cash flows that the entity expects to receive from the asset are sales proceeds.

What did the ITG discuss?

Issue	ITG discussion
Can cash flows expected from sale following a default be included in measurement of ECL?	ITG members appeared to agree on the following. – When measuring ECLs, IFRS 9 does not limit the cash flows that an entity expects to receive only to contractual cash flows arising under the contract that are collected from the borrower. Therefore, cash flows that are expected to be received from the sale of an asset following default could be included. (This view was compared with the view expressed under Issue 5, above. It was noted that cash flows from selling an asset represent cash flows recovered from the asset – *similar* to cash flows recovered from credit enhancements that are an integral part of the contractual terms of an asset and not recognised separately, and *dissimilar* to cash flows recovered from credit enhancements that are not integral or which are a separately recognised item.) – This conclusion applies irrespective of the current credit quality of an asset, but the relevant cash flows to consider are those expected from the sale of an asset after, not before, it has defaulted. This is because ECLs are amounts weighted by the probability of default occurring. – One ITG member pointed out that if an entity's practice is to realise cash from defaulted assets through sale, it would not have any other data to use for estimating expected cash flows – so any assumptions about expected cash flows, other than from a sale, would be artificial.

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Issue	ITG discussion
	ITG members appeared to agree on the following. – The entity does not need to have a past practice of generating cash flows from sale, but does have to demonstrate an intention to sell in the event of default. – The entity has to have an ability to sell, but this right does not have to be stated in the contractual terms of the instrument.
How should cash flows expected from sale be estimated?	ITG members appeared to agree on the following. – The estimate is entity-specific – so, for example, it is not necessary for there to be an observable market price. – The cash flows to consider should be net of costs of selling – e.g. transaction costs.

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7. Meaning of current effective interest rate

It is important that there is consistency between the rate used to project future cash flows and the rate used to discount those cash flows.

What's the issue?

Paragraph B5.5.44 of IFRS 9 states that "if a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate". The submitter noted that it is not clear what is meant by the term 'current effective interest rate', and suggested two possible interpretations for a floating rate loan – e.g. for a loan with an interest rate equal to LIBOR:

- the single LIBOR rate current at the reporting date is used to discount all future cash shortfalls; or
- multiple LIBOR rates derived from the current yield curve are used to discount each future cash shortfall.

What did the ITG discuss?

Issue	ITG discussion
What is the meaning of 'current effective interest rate' for a floating-rate instrument?	ITG members appeared to agree on the following. – IFRS 9 is not specific on this point, so either interpretation is possible. – There should be consistency between: - the rate used to project future cash flows; - the rate used to discount those cash flows; and - the rate used to recognise interest income.

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8. Assessing for significant increases in credit risk for financial assets with a maturity of less than 12 months

There is no exception in IFRS 9 from assessing whether credit risk has increased significantly for assets with a maturity of 12 months or less.

What's the issue?

Under the general impairment model in IFRS 9[7], ECLs are measured at an amount equal to:

– 12-month ECLs if the credit risk on the financial instrument has not increased significantly since initial recognition; or

– lifetime ECLs in other cases.

The submitter noted that, for an asset with a maturity of 12 months or less, the amount of ECLs is the same irrespective of whether the measurement basis is 12-month ECLs or lifetime ECLs. Accordingly, the submitter questioned whether, for such financial assets, it is necessary for an entity to make an assessment of whether credit risk has increased significantly.

What did the ITG discuss?

Issue	ITG discussion
For assets with a maturity of 12 months or less, is it necessary to assess whether credit risk has increased significantly?	ITG members appeared to agree that there is no exception in IFRS 9 from assessing whether credit risk has increased significantly for assets with a maturity of 12 months or less. It is not relevant that 12-month ECLs on these assets are the same as lifetime ECLs, because a significant increase in credit risk is assessed with reference to increases in the risk of default since initial recognition, not by reference to the amount of ECLs. It was also noted that the identification of significant increases in credit risk has an important impact on disclosures.

7. Paragraphs 5.5.3 and 5.5.5 of IFRS 9.

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9. Measurement of the loss allowance for credit-impaired financial assets

ITG members appeared to agree that Method A is required under IFRS 9.

What's the issue?

Under IFRS 9[8], the calculation of interest income is different depending on whether an asset is credit-impaired at the reporting date, as follows.

- If a financial asset is not credit-impaired, interest income is calculated by applying the effective interest rate (EIR) to the gross carrying amount.
- If a financial asset is credit-impaired, interest income is calculated by applying the EIR to the amortised cost – i.e. gross carrying amount less loss allowance.

IFRS 9 does not specifically discuss whether the calculation of the gross carrying amount should change when an asset that was not credit-impaired at initial recognition subsequently becomes credit-impaired.

The submitter provided the example of a credit-impaired asset with an amortised cost of 100 and an EIR of 10% per annum. On 31 December 20X1, an impairment allowance of 60 is recognised. During 20X2 no cash is received, and on 31 December 20X2 there is no change in the expected cash flows. Accordingly, the amortised cost becomes 44 (being 40 + (40 x 10%)).

The submitter suggested the following potential approaches to calculating the gross carrying amount and the loss allowance.

Method	A	B	C
Gross carrying amount	110	104	100
Loss allowance	(66)	(60)	(56)
Amortised cost	44	44	44

What did the ITG discuss?

Issue	ITG discussion
How should the gross carrying amount and loss allowance be measured for assets that have become credit-impaired after initial recognition?	ITG members appeared to agree on the following. – Method A is required under IFRS 9, but Methods B and C are not acceptable. – IFRS 9 is more specific in this area than IAS 39, because IFRS 9 defines the gross carrying amount of an asset and has specific requirements as to when impairment is reflected by a loss allowance or by a direct write-off. – In the example above, Method A leads to an increase in the balance of the loss allowance – this increase does not give rise to the recognition of an impairment loss in profit or loss because it is merely a reflection of the increase in the gross carrying amount that is not recognised as interest income.

8. Paragraph 5.4.1 of IFRS 9.

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10. Presentation of the loss allowance for financial assets measured at amortised cost

What's the issue?

The submitter of this item noted that IFRS 9 does not contain specific guidance on the presentation in the statement of financial position of the loss allowance for financial assets measured at amortised cost.

Therefore, the submitter queried whether an entity is required to present the loss allowance on these financial assets separately in the statement of financial position.

ITG members noted that IFRS 9 does not require an entity to present the loss allowance on financial assets measured at amortised cost separately on the face of the statement of financial position.

What did the ITG discuss?

Issue	ITG discussion
Is an entity required to present the loss allowance for assets measured at amortised cost on the face of the statement of financial position?	ITG members appeared to agree on the following. – IFRS 9 does not require an entity to present the loss allowance on financial assets measured at amortised cost separately on the face of the statement of financial position. However, management should consider what information is relevant, and an entity should present additional line items when such presentation is relevant to an understanding of the entity's financial position. – The question related only to presentation on the face of the financial statements, and does not detract from the requirements to provide more detailed disclosures. In addition, for financial assets measured at fair value through other comprehensive income, an entity is prohibited from presenting the loss allowance separately in the statement of financial position as a reduction of the financial asset's carrying amount[8].

9. Paragraph 16A of IFRS 7 *Financial Instruments: Disclosures*.

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The story so far

The new expected credit loss model for the impairment of financial instruments to be introduced by IFRS 9 *Financial Instruments* will have a significant impact on the way banks account for credit losses on their loan portfolios, and on the related systems and processes.

To help stakeholders with implementation issues, the IASB has established the IFRS Transition Resource Group for Impairment of Financial Instruments (the ITG).

The ITG held meetings in April 2015 and September 2015, which we reported in our IFRS Newsletter: IFRS 9 Impairment – Issue 1 and IFRS Newsletter: IFRS 9 Impairment – Issue 2. The third substantive meeting, which is the subject of this newsletter, was held in December 2015.

About the ITG

The purpose of the ITG[10] is to:

- solicit, analyse and discuss stakeholder implementation issues;
- inform the IASB about those implementation issues, which will help the IASB determine what, if any, action will be needed to address those issues; and
- provide a public forum for stakeholders to learn about the new impairment requirements from others involved with implementation.

The ITG does not have standard-setting authority, and its purpose is to advise the IASB. ITG members include representatives from banks and audit firms.

Certain IASB Board members and representatives from the Basel Committee on Banking Supervision and from the International Organization of Securities Commissions (IOSCO) are also observers at the meetings. The meetings are chaired by an IASB Board member.

The ITG's Agenda Papers, prepared by the IASB staff, are publicly available and all meetings are held in public. Minutes of the meeting will also be made publicly available.

10. The IASB website provides further details on the purpose and activities of the ITG.

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Issues discussed by the ITG to date

22 April 2015

ITG reference	What the ITG discussed
1	The maximum period to consider when measuring ECLs
2	Forecasts of future economic conditions
3	Loan commitments – Scope
4	Revolving credit facilities
4.1	Determining the appropriate life to be used when measuring ECLs
4.2	Determining the date of initial recognition for the purposes of assessing significant increase in credit risk
5	Assessment of significant increase in credit risk for guaranteed debt instruments
6	Measurement of ECLs for an issued financial guarantee contract
7	ECLs – Measurement date
8	Measurement of ECLs in respect of a modified financial asset

16 September 2015

ITG reference	What the ITG discussed
1	Significant increases in credit risk
1.1	Methods of assessing changes in credit risk where loans are priced within broad credit quality bands
1.2	Whether behavioural indicators can be used to identify significant increases in credit risk
2	Use of changes in the risk of default occurring over the next 12 months when assessing for significant increases in credit risk
3	Measurement of ECLs for revolving credit facilities
4	Forward-looking information
4.1	Differentiating forward-looking information
4.2	Determining what is 'reasonable and supportable'

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11 December 2015

ITG reference	What the ITG discussed
1	Incorporation of forward-looking scenarios
1.1	When measuring ECLs can entities use one single forward-looking economic scenario, or do they need to incorporate more than one forward-looking economic scenario and, if so, how?
1.2	How should an entity take into account forward-looking economic scenarios when determining whether there has been a significant increase in credit risk?
2	Scope of paragraph 5.5.20 of IFRS 9
3	Measurement of ECLs for charge cards
4	Period over which to measure ECLs for revolving credit facilities
5	Collateral and other credit enhancements and the measurement of ECLs
6	Inclusion of cash flows expected from sale of a defaulted loan in the measurement of ECLs
7	Meaning of current effective interest rate
8	Assessing for significant increases in credit risk for financial assets with a maturity of less than 12 months
9	Measurement of the loss allowance for credit-impaired financial assets
10	Presentation of the loss allowance for financial assets measured at amortised cost

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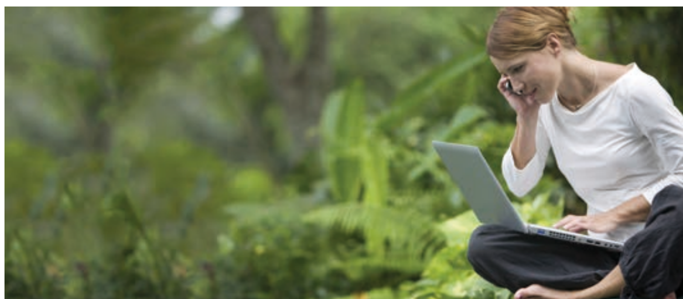

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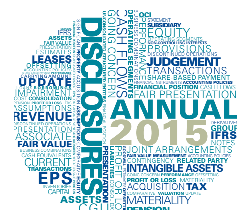

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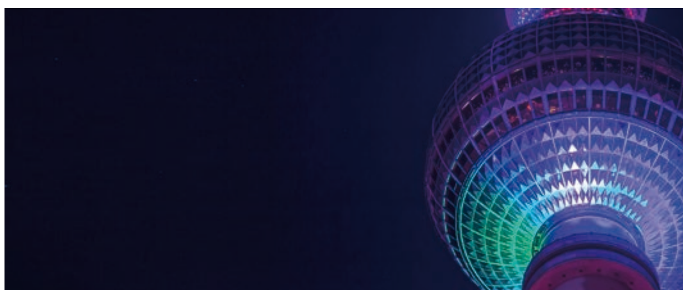

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