



8 March 2013

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF *FINANCIAL INSTRUMENTS: EXPECTED CREDIT LOSSES*

Comments to be received by 11 June 2013

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2013/ed_crlost.pdf

As stated in the IASB's press release, accompanying the Exposure Draft, the proposals build upon previous work to develop a more forward-looking provisioning model, which recognises expected credit losses on a more timely basis.

Financial reporting requirements both internationally and in the US currently use an incurred loss model to determine when impairment is recognised on financial instruments. The incurred loss model requires that a loss event occurs before a provision can be made and was introduced to avoid the use of so-called 'big bath' general provisions that distorted the accurate reporting of financial performance to investors. However, during the financial crisis the incurred loss model was criticised for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

Consistent with requests from the G20, the Financial Crisis Advisory Group and others, the IASB and the US Financial Accounting Standards Board (FASB) have been working jointly to develop a more forward-looking impairment model that reflects expected credit losses. The proposals build upon the expected credit loss model previously agreed between the IASB and the FASB, but it has been simplified to reflect feedback received from interested parties. The FASB has published separately for public comment an alternative expected credit loss model and the two sets of proposals have overlapping comment periods.

The IASB model is designed to recognise credit losses on a more timely basis. Expected credit losses are recognised on all financial instruments within the scope of the proposals from when they are originated or purchased.

Full lifetime expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality. This is a significantly lower threshold than under the incurred loss model today which in practice has resulted in provisioning only when financial assets are close to default.

The FRSC invites your comments on the proposals. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered, in developing its response to the IASB, the FRSC requests your comments to be received by the Institute on or before **11 June 2013**.



Hong Kong Institute of
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.