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FASB & IASB adopt a single approach to impairment for financial instruments

FASB Chairman Leslie Seidman said Tuesday via webcast that FASB and the International Accounting Standards Board (IASB) have reached a compromise on a single approach to impairment for financial instruments. She acknowledged, however, that substantial constituent feedback on the boards' joint proposals for revenue recognition and leases reveals several major issues the boards will need to deal with in the next few months.

The financial instruments impairment compromise, which Seidman said will be released "in the next week or so," combines key features of the boards' separate proposals.

Under the impairment model FASB proposed last May:

- ³/₄ A credit impairment would be recognized when information is available indicating that there is an adverse change in the expected future cash flows of the financial asset;
- ³/₄ An entity must consider all available information on past events and existing conditions but not future scenarios; and
- ³/₄ Creditors would not be prevented from evaluating losses on a pool or portfolio basis.

The IASB's November 5, 2009, proposed impairment model for those financial assets measured at amortized cost used expected cash flows. It would require an entity:

- ³/₄ To determine the expected credit losses on a financial asset when that asset is first obtained;
- ³/₄ To recognize contractual interest revenue, less the initial expected credit losses, over the life of the instrument;
- ³/₄ To build up a provision over the life of the instrument for the expected credit losses; and
- ³/₄ To reassess the expected credit loss each period and to recognize immediately the effects of any changes in credit loss expectations.

"We've decided to ask constituents to provide input on an impairment model for financial assets such as loans that would recognize a portion of the estimated loss over time unless greater losses are expected in the foreseeable future, in which case that larger floor amount would be recognized currently," said Seidman. "We want to see whether people think this is an improvement to current reporting standards and whether it's operational before we get too far along."

On the issue of classification and measurement of financial instruments, Seidman said FASB received "overwhelming feedback" that preparers, auditors and others would prefer to have loans held for collection recorded on the balance sheet at amortized cost with a more robust impairment test.

This limited cost approach aligns more closely with the IASB's model in IFRS 9 and recommendations made by the AICPA's Accounting Standards Executive Committee (AcSEC), now known as the Financial Reporting Executive Committee (FinREC).

Seidman said FASB has unanimously agreed that at least some assets should qualify for cost accounting and has started its discussion on which ones might qualify.

Regarding the boards' Revenue Recognition and Leases projects, Seidman said the boards remain committed to completing their priority joint projects (Financial Instruments, Revenue Recognition and Leases) by June. But she added that "these target dates are subject to the nature of constituent feedback received."

Source : Journal Of Accountancy

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