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# Impairment of Financial Assets — FASB and IASB Continue Discussions

**July 20, 2012** — At their joint meeting on Wednesday, the FASB and IASB continued discussing their "three-bucket" expected-loss approach to the impairment of financial assets. Specifically, the boards made tentative decisions about (1) whether and, if so, how entities would apply the impairment model to loan commitments and financial guarantees and (2) disclosures related to the impairment model.

## Loan Commitments and Financial Guarantees

The boards tentatively agreed that the impairment model should apply to loan commitments[1] and financial guarantee contracts[2] that create a present obligation "to extend credit." When estimating expected credit losses on loan commitments and financial guarantees, entities must consider the maximum contractual period over which entities are exposed to credit risk. In addition, when estimating expected credit losses on loan commitments, entities should estimate usage (i.e., future drawdowns) over the lifetime of a loan commitment. The boards tentatively decided that entities should report expected credit losses of loan commitments and financial guarantees as a liability in their statements of financial position.

## Disclosures

The boards tentatively agreed on a set of quantitative and qualitative disclosures that would be added to those currently in U.S. GAAP and IFRSs. An outline of the tentative disclosures is available in the FASB's Summary of Board Decisions for the July 18 meeting.

## Next Steps

The FASB stated that at future meetings, it plans to discuss (1) the scope of purchased credit-impaired assets (i.e., assets that would be initially classified in Bucket 2 or 3 upon acquisition), (2) application guidance related to debt securities, (3) debt modifications, and (4) nonaccrual accounting. The Board also stated that it believes that these discussions will not affect the timing of the exposure draft, which it still expects to issue in the fourth quarter of 2012.

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[1] Loan commitments not accounted for at (1) fair value through profit or loss under IFRSs and (2) fair value through net income under U.S. GAAP.

[2] Financial guarantee contracts not accounted for (1) at fair value through profit or loss under IFRSs, (2) at fair value through net income under U.S. GAAP, or (3) as insurance contracts under U.S. GAAP and IFRSs.