



## **Financial Instruments: Amortized Cost and Impairment January 2010**

**COMMENTS TO THE AcSB MUST BE RECEIVED BY  
JUNE 15, 2010**

**COMMENTS TO THE IASB MUST BE RECEIVED BY  
JUNE 30, 2010**

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This Exposure Draft of proposed International Financial Reporting Standards reflects proposals made by the IASB that the AcSB intends to adopt as Canadian generally accepted accounting principles.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received by the AcSB will be available on its website at [www.acsbcanada.org](http://www.acsbcanada.org) 10 days after the comment deadline, unless confidentiality is requested.

**To be considered, comments to the AcSB must be received by June 15, 2010, addressed to:**

**Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

**For ease of handling, we prefer comments to be sent by e-mail (in Word format) to:  
[ed.accounting@cica.ca](mailto:ed.accounting@cica.ca)**

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## Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to incorporate into the CICA Handbook — Accounting, Part I, the new standard on amortized cost measurement and impairment of financial assets resulting from the Exposure Draft (ED) recently issued by the International Accounting Standards Board (IASB). The proposed new standard would replace corresponding requirements in IAS 39 *Financial Instruments: Recognition and Measurement*.

### IASB Exposure Draft

The IASB's ED, "[Financial Instruments: Amortised Cost and Impairment](#)," is available on the IASB website at [www.iasb.org](http://www.iasb.org).

### Main features

The ED proposes to replace the incurred loss model currently used to recognize and measure impairment of financial assets with an expected loss model that would recognize impairment sooner. This expected loss model would operate by revising the effective interest rate method. The effective interest rate calculated at initial recognition of all financial instruments measured at amortized cost would incorporate expectations about credit losses that will be incurred over the life of the instrument. Subsequent changes in expectations would be recognized as adjustments to the amortized cost of the instrument, directly or through a related allowance account, and to net income. Adopting the model would result in significant changes in the presentation of interest income and bad debt expense. Practical expedients would be permitted that would not significantly alter measurement of impairment on short-term receivables.

### Related projects

The IASB plans to replace IAS 39. It has decided to expose proposals addressing specific issues separately.

This ED is the third in a series of exposure drafts the IASB plans to issue. Proposed revisions to the derecognition provisions of IAS 39 were exposed in May for comment by July 31, 2009. A final derecognition standard is expected in the latter half of 2010. Revisions to the classification and measurement requirements were issued by the IASB in November 2009 as IFRS 9 *Financial Instruments: Classification and Measurement*. The IASB plans to expose for comment revised hedge accounting provisions during the first half of 2010. Other issues will be addressed, as necessary, in 2010.

### Convergence with US GAAP

As part of the February 2006 [Memorandum of Understanding](#) between the IASB and the Financial Accounting Standards Board (FASB), the Boards committed to developing a common, simplified standard for financial instruments. The Boards jointly issued a Discussion Paper, "Reducing Complexity in Reporting Financial Instruments," in March 2008. The Boards have issued amendments to their respective standards to address concerns related to market conditions but continue to discuss how input from their separate projects can be combined to achieve a converged standard. The status of FASB's deliberations can be viewed at [www.fasb.org](http://www.fasb.org).

## **Timing of adoption and transitional provisions**

The IASB plans to issue its impairment standard before the end of 2010. The IASB has not yet determined the effective date of the proposed new IFRS but has stated that it would not be mandatory before three years from its issuance. Earlier application would be permitted but only on or after implementation of IFRS 9.

The proposed new standard would apply retrospectively as of the date of initial application with adjustments to comparative amounts presented and opening retained earnings, as appropriate.

## **Comments requested**

The AcSB encourages Canadian stakeholders to respond to the IASB on its ED. Specific questions on which the IASB would like input are provided in the Invitation to Comment in its ED. The AcSB requests that comment letters be sent directly to the IASB with a copy to the AcSB.

The AcSB would like input from Canadian respondents on the following additional question regarding the proposed new standard.

The proposed new standard has been developed by the IASB for application by entities around the world. Assuming the ED proposals are approved by the IASB, do you believe that there are aspects of the proposed new standard that make some or all of it inappropriate for Canadian entities, even though it is appropriate for entities in the rest of the world? If so, please specify which aspects and what circumstances make the accounting requirements proposed in the ED inappropriate for Canadian entities.

Responses to this additional question should be sent directly to the AcSB.

The deadline for responding to the AcSB on the additional question set out above is June 15, 2010. The deadline for commenting to the IASB on its ED is June 30, 2010.