



Heads Up

Financial Instruments: Expected Credit Losses

Contents

IFRS in Focus

External links

“In summary”

The IASB and AASB have issued for public comment an exposure draft (ED) with respect to the recognition, measurement, presentation, and disclosure of expected credit losses in financial instruments. The proposals are intended to replace the guidance on impairment of financial assets in IAS 39 / AASB 139 and once finalised are to be integrated into IFRS 9 / AASB 9.

The proposals will have a significant impact on the financial services industry but will also impact the accounting for bad debt allowances on trade receivables for non-financial service entities.

The ED proposes to use a forward looking model with the aim of achieving earlier recognition of (expected) credit losses on financial assets, guarantees and commitments as compared to the currently used ‘incurred loss model’ that delays recognition of credit losses until the occurrence of a loss event.

The ED proposes to recognise a loss allowance:

- **measured at an amount equal to full lifetime expected credit losses** where credit risk has *increased significantly* since initial recognition, the asset was credit impaired when acquired/ originated or, as an accounting policy choice, for trade receivables that do not constitute a financing transaction; or
- **measured at an amount equal to the 12-month expected credit losses** (lifetime expected credit losses from default events that could occur within 12 months after the reporting date) for all other assets subject to the proposals.

The comment period for the AASB ED ends on 10 May 2013 (5 July 2013 for the IASB ED).

For further information on these Standards refer to the additional IFRS in Focus newsletter below.

IFRS in Focus

- [IFRS in Focus — Expected Credit Losses – Exposure Draft](#)

External Links

- [IASB press release](#)
- [IASB ED/2013/3 Financial Instruments: Expected Credit Losses](#)
- [AASB ED 237 Financial Instruments: Expected Credit Losses](#)

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 5,700 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited