Cobden Partners
Helping Nations Solve Banking Crises

Minutes August 22, 2012.

IASB: Stephen Cooper, Mark Byatt, Sue Lloyd
Stephen J Baker MP
Cobden Partners: Gordon Kerr

SC opened the meeting by discussing the Standard on Loan Impairment – IAS 39. The IASB recognised that "there are problems with the incurred loss model".

SC stated that a distinction should be drawn between:

a) determining profits for purposes of reporting to shareholders, and
b) determining profits for purposes of distribution to shareholders

The IASB believe in the benefit of a single set of global accounting standards. Its job is to provide information to investors. The IASB recognise a potential conflict between the interests of investors reading the numbers, and the interests of regulators.

There was a problem with "profit smoothing" – companies holding back from declaring all their profits in good years in order to bolster profits in bad years – so we need transparency.

SJB urged a focus on the link between economic reality and financial stability.

GK asked that we not explore today the discussion about procyclicality vs anticyclicality – this would be a distraction.

Back to the problems of the impairment Standard. SC: the IASB recognise the problem – there should be an 'allowance' for future expected losses. One alternative is an 'expected loss' model. What cash do we expect? Not 'fair value'; not 'market price' but what cashflows do we expect if we pv at the original loan rate?

In the US, FASB have this type of incurred loss model but with a higher "allowance". Over here, our banks have concerns about operating such a model.

MB explained further the area of disagreement between FASB and IASB regarding the calculation of impairment allowances. FASB have adopted a "full lifetime loss" model. SL provided the detail: FASB want a deduction today of an allowance based on the cashflows the lender expects to collect vs the contracted cashflows pv'd at the bank's funding rate.

GK agreed that this made no sense – every loan a bank makes contains a hoped for profit margin, all would be underwater in the accounts the day they were disbursed.

MB stated that 2/3 of the G20 require IFRS. This spans Europe, Russia and Asia. IFRS has been a massive boost to companies with previously poor accounting rules such as Brazil and Italy.

There is today a question about US strategy. IASB have been trying to bring about convergence. US SEC is considering what to do – in 2007 they allowed foreign registrants to report financials in IFRS form and abandoned the former requirement that they represent under US GAAP (ie under FASB standards).

There was a brief discussion of GK's charges in his ASI paper "The Law of Opposites" that RBS falsified its accounts by using IFRS.

GK further stated that he felt the IASB were attempting an impossible task of a unified set of standards given the need for such standards to fit with a variety of national legal systems. He disagreed with the premise that a global set of standards is definable or achievable.

End
Gk Sept 13 2012