Patrick Mommens

From: Deprez Nico (Dexia Group) [nico.deprez@dexia.com]
Sent: 01 April 2011 16:44
To: director@fasb.org; slloyd@ifrs.org; sesutay@fasb.org; Commentletters
Cc: Patrick Mommens
Subject: Dexia's CL on supplementary document Impairment
Attachments: dexia's cl sd impairment.pdf

Dear Sir, Madam,

Please find attached Dexia's comment letter on FASB/IASB's supplementary document on Impairment. May I kindly ask you to make this document available on your website ?

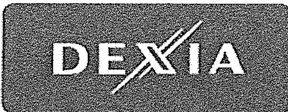
If you have any question, please do not hesitate to contact me.

Best regards,

Nico Deprez

<<dexia's cl sd impairment.pdf>>

-- Dexia disclaimer: http://www.dexia.com/maildisclaimer.htm --



Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Brussels, 31 March 2011

Dear Sir/Madam,

Dexia is a European bank, with about 35,200 members of staff and core shareholders' equity of EUR 19.2 billion as at 31 December 2010. The Dexia Group focuses on Retail and Commercial Banking in Europe, mainly Belgium, Luxembourg and Turkey and on Public and Wholesale Banking, providing local public finance operators with comprehensive banking and financial solutions. Asset Management and Services provides asset management, investor and insurance services, in particular to the clients of the other two business lines. The different business lines interact constantly in order to serve clients better and to support the Group's commercial activity.

We welcome the opportunity to comment on the IASB's Supplement to ED/2009/12.

In general, Dexia considers the supplementary document as a move in the right direction especially because it is more in line with the business approach but also takes into account remarks made in several comment letters to IASB's exposure draft Impairment. The areas where the supplementary document improves the principles are:

- expected losses could be determined based on an open portfolio;
- split of the loan portfolio into a good/bad book based on internal risk management policies;
- the expected losses related to good book are recognised over the life time of the portfolio which will result in a match of interest income and expected losses;
- there will be a decoupling of the interest rate and the initially expected credit losses. In other words there will be no change in the way the effective interest rate should be calculated.

Dexia SA
Place Rogier 11
B - 1210 Brussels

Tel. +32 2 213 57 00
Fax +32 2 213 57 01
www.dexia.com

Account No. 068-2113620-17
RPM Brussels VAT BE 0458.548.296

1, Passerelle des Reflets
Tour Dexia La Défense 2
TSA 12203 - F - 92919 La Défense Cedex

Tel. +33 1 58 58 77 77
Fax +33 1 58 58 86 00

We do have concerns about the introduction of a floor for the good book because this:

- adds complexity;
- is in conflict with the objective to match credit losses with interest income;
- is not in line with current risk management strategy;
- decreases the comparability between financial statements;
- some entities may define a foreseeable future based on the remaining life of the assets which leads to an upfront recognition of expected losses which is different from the initial objective of the IASB;
- leads to counterintuitive results: the better an entity can assess its credit losses (resulting in a longer foreseeable future) the higher the floor will be compared to another entity with a similar portfolio.

If the IASB decides to introduce a floor for the good book, it should sufficiently argue why the floor is kept and based on which arguments. It should also increase the guidance relating to the foreseeable future as this is lacking in the supplementary document.

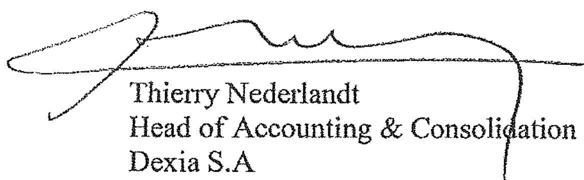
The floor is added only for the sake of convergence with FASB and lacks any convincing conceptual arguments. The question is whether a high-quality impairment model getting the accounting right should not be the first driver for the IASB instead of convergence.

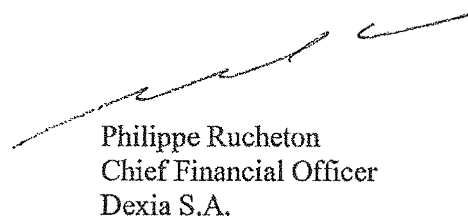
The supplementary document lacks clarification on how credit allowances between good and bad book are allocated. Conceptually, incurred losses in the bad book are not more than a crystallisation of initially/subsequently expected losses. We therefore believe that the credit allowances build up for the good book should be used to cover the incurred losses.

A combination of lack of clarity of the proposals in this supplementary document and timing (both publication date of this document and due date for receiving the comment letters) made that Dexia was not able to fully and adequately analysis the full impact.

If you wish to discuss our comments further, please do not hesitate to contact Nico Deprez, Head of Accounting Policy Department of Dexia SA.

Yours sincerely,





Thierry Nederlandt
Head of Accounting & Consolidation
Dexia S.A

Philippe Rucheton
Chief Financial Officer
Dexia S.A.

Question 1 - Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

1. In its comment letter to IASB's Exposure Draft Amortised Cost and Impairment, Dexia was already supportive for an expected loss model whereby initially estimated credit losses are allocated over the life of the underlying financial asset. We argued that such an approach has the following advantages:

   a. no overstatement of interest income reported;

   b. avoids subjectivity in determining the 'incurred loss'-trigger;

   c. no one-time P&L hit when a loss trigger occurs;

   d. in line with pricing policy.

2. However, Dexia expressed its concerns about the model proposed in the exposure draft because it was too complex from an operational point of view and not in line with the way credit risk is managed. The IASB seems to have taken into account some comments when it developed the impairment model as described in the supplementary document. The impairment principles could now be applied on an open portfolio whereby a distinction between good and bad book is made. This is in line with Dexia's current risk management approach. In addition, the IASB decided to decouple interest rate and initially expected credit losses. In general, Dexia is rather supportive for the impairment model described in this supplementary document.

Question 2 -
Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?
Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

3. Dexia believes that the IASB should strive to obtain a consistent impairment approach for all financial assets carried at amortised cost. The implementation cost for preparers would increase if different impairment principles for different situations are to be applied. On top of that it would make it more difficult for users to understand and compare financial statements. Dexia supports the use of the approach as described in the supplementary document, except

for the floor, on a closed portfolio on the condition that it is practicable to apply. We recommend the IASB to perform outreach activities on this area.

4. Having said that, we believe that exceptions could be made on that general principle on the ground of practicality, cost/benefit balance or for reasons of simplification. An example of a simplified impairment methodology could be one for short-term non-interest bearing receivables.

Question 3 – Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?

5. Dexia agrees that a time-proportional expected credit loss model for the good book is an appropriate, feasible and simplified approach.

6. This approach is considered as being appropriate for several reasons. In the first place because it links the interest revenue earned with the expected credit losses and thus better fits with how loans are priced by financial institutes. Consequently this expected loss impairment model overrules the disadvantage attached to the current incurred loss model under which the interest income is overstated as long as there is no objective evidence of impairment. Dexia also welcomes IASB's decision to decouple the interest and the initially expected credit losses as this ease the implementation. Secondly, the impairment model provides an answer on the delayed recognition of impairment losses under an incurred loss model. Thirdly, we believe an expect loss recognition over the remaining life for the good book and a full recognition for the bad book is aligned with risk management policies and therefore better reflects the entity's business model. The underlying principles in recently published IFRS standards and Exposure Drafts are often based on that approach. Dexia support such a view as it provides in most cases useful information to the users. Finally, by recognising the expected losses over time, it avoids a one-time hit in profit and loss once there is objective evidence of impairment.

7. This model means also a simplification. There is not only the decoupling of initially expected credit losses and the effective interest rate but more important the expected losses are no longer attributed to specific periods.

8. However, Dexia strongly disagrees with the minimum impairment allowance amount (ie the floor) introduced by this supplementary document that for many reasons:

    a. the introduction of the floor is in contradiction with IASB's own objective – linking the pricing of an asset and its expected losses;
    b. 'floor' was introduced for reasons of convergence between IASB and FASB rather than based on technical arguments. The question is whether convergence overrules the objective of high-quality accounting principles. Dexia believes that the IASB should strive to get the accounting right and to develop principles which are responsive to the needs of users;

c. the floor will harm the comparability between financial statements if the foreseeable future is defined differently (12, 24, 36, … months ?) Hence, we reach the Boards statements providing in BC 64, on the comparability between entities;
d. it will lead to counterintuitive results. The better an entity can assess its credit losses (resulting in a longer foreseeable future) the higher the floor will be compared to another entity with a similar portfolio;
e. some entities may define a foreseeable future based on the remaining life of the assets leading to upfront all expected losses of the portfolio, which is different from the initial objective of the IASB;
f. it adds complexity to the accounting principles because an entity needs to calculate the impairment allowances under both methods (time-proportional and floor) before it can decide whether the floor should be applied;
g. judgement and estimate play again an important rule in financial reporting;
h. the floor is introduced in order to avoid a situation where the actual losses are above the credit allowances. This can happen when a portfolio is facing an early loss emergence. However, when the open portfolio is well balanced and an entity is in an ongoing concern situation, the weighted average age of the portfolio is expected to be on average of the weighted average life. In other words, for such open portfolios the floor will be less relevant. Dexia believes that there are alternative approaches. One example could be a time-proportional approach based on the expected loss profile of the underlying portfolio. This is quite similar to the accounting principles for property, plant and equipment or intangible assets. For these assets, the IAS standards state that amortisation/depreciation should be based on expected revenue pattern;
i. we do not see any value added by this minimum amount requirement considering there is already an allowance for incurred losses equal to the life time expected losses. If the Boards aim at reflecting risk management policies as it did for distinction between good book and bad book, they should take into considerations the floor has no risk justification as it is not based on characteristics of the assets or underlying economy.

Question 4 – Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

9. The proposed approach without the floor is feasible. Within Dexia a similar methodology is already applied for prudential and management reporting – capital management. Our current portfolio is already split into a good and a bad book based on Basel II definitions. For the good book, the expected credit losses are recognised based on a time-proportional pattern and based on the rating applicable at date the loan was granted. If needed historical data (which is back-tested and also used for prudential reporting) is amended via additional impairment allowances to reflect current economic situation. Examples of such amendments are additional impairment allowances for some countries or for some sectors.

10. However, we are convinced that introducing a floor will lead to operational difficulties. In practice it means that preparers have to perform two tests on its open portfolio good book: one in order to determine the impairment allowance based on a time-proportional approach and a second in order to determine the impairment allowance based on the floor methodology.

In addition we want to draw IASB's attention that there is a lack of clarifying guidance on floor concept.

Question 5 –
Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

11. Compared to the IASB's Exposure Draft Amortised Cost and Impairment, Dexia believes the IASB increased by publishing this supplementary document the usefulness of the information for decision-makers -and users of financial statements in general. We notice that the IASB took into consideration the comments received via the Comment Letters on the Exposure Draft Amortised Cost and Impairment. Dexia supports the allowance for impairment based on lifetime expected loss on "open portfolio" as this enhances the information for decision-making as it better:

    a. reflects the economic reality compared to the incurred loss model as defined in IAS 39 because the expected losses are recognised much earlier. Consequently there is no longer an overstatement of interest income in the period before there is objective evidence of iimpairment. In that respect we are also convinced that the 'decoupling' the initial expected credit losses and the effective interest rate will increase the comparability of the information;

    b. aligns financial reporting with risk management strategy. Today, financial institutions already use an expected loss model with a separate treatment for good/bad book to determine the impairment allowance for prudential reporting and to determine their economic capital. However, we would like to draw the attention to fact that there are still significant differences with the expected loss model as defined by this supplementary document;

    c. interacts with pricing. In addition, this methodogy which treats initial expected losses through the recognition of the asset's spread and later change in estimate of expected losses based on internal risk system data could allow the users to properly follow any change in expected credit losses, if that information is presented in a separate headline.

12. We believe the floor proposal will not provide useful information for users and will add unnecessary complexity for preparers for several reasons:

    a. the floor concept has been proposed by IASB and FASB only to "bridge the gap" as described in BC 62. On top of that, the floor is not linked to the way a bank recognized credit losses (through the pricing of the assets and change in expectation through the change of underlying economy) and is not introduced based on convincing technical arguments;

b. as the floor for the credit allowances will not only provide less useful information than the IASB might expect but it will decrease the comparability between financial statements because:

   i. the foreseeable future for which the time period is not determined by the standard but is at the discretion of the reporting entity;

   ii. leads to a counterintuitive result whereby entities being able to reliable measure the expected credit losses over a longer period (eg because they have sufficient historical data) will face a higher floor than those entities have a less accurate data available. There is a lack of guidance in the supplementary document.

Question 6 – Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

13. The underlying principle to differentiate the good book and bad book is clearly described in the supplementary document. Dexia agrees with the underlying principle that the uncertainty in collecting the contractual cash flows in due time from the debtor should be analysed based on internal risk management policies. We believe that the supplementary document contains sufficient principle based guidance. Given the diversity in credit risk management practices, it would be impossible to provide guidance for all possible cases. It should be noted that providing too much guidance could ultimately result in a rule-based document.

Question 7 – Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

14. As the requirements laid down by this supplementary document is based on -and consequently financial reporting should reflect- the way financial institutions manage their credit risks in practice, the differentiation between the two groups is operational. Current practice is already applied and reported by Dexia in its prudential and capital management communication. These communications are yet subject to an external review.

Question 8 – Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

15. We support a differentiation in impairment allowances for good and bad book for the following reason:

a. it is fully in line with IASB's objective to reflect credit risk management policies in the financial reporting. Dexia already splits its loan portfolio into a good and a bad book;

b. it provides useful information for the users as the bad book represents these loans for which objective evidence of impairment exists while the good book represents only these loans for which an expected loss is not yet evidenced by a loss event.

As already said before, we strongly disagree with the floor for the good book as introduced by this Supplementary Document.

16. The supplementary document lacks clarification on how credit allowances between good and bad book are allocated. Conceptually, incurred losses in the bad book are not more than a crystallisation of initially/subsequently expected losses. We therefore believe that the credit allowances build up for the good book should be used to cover the incurred losses.

Question 9 – The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

(e) Do you believe that the foreseeable future period (for purpose of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognised under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

17. Dexia strongly disagrees with the minimum impairment allowance amount (ie the floor) introduced by this supplementary document that for many reasons :

    a. imposing a floor is in contradiction with one of IASB's objective, linking the pricing of an asset and its expected losses;
    b. 'floor' was introduced only to reach convergence between IASB and FASB rather than based on technical arguments. The question is whether convergence should overrule the objective of high-quality accounting principles. We believe the IASB should focus on getting the accounting right;
    c. the floor will reduce the comparability between financial statements because entities will define the foreseeable future (12, 24, 36, ... months ?). Hence, we agree with the Boards statements providing in BC 64, on the comparability between entities;
    d. it will lead to counterintuitive results. The better an entity can assess its credit losses (resulting in a longer foreseeable future) the higher the floor will be compared to another entity with a similar portfolio;
    e. some entities may defined a foreseeable future based on the remaining life of the assets leading to upfront all expected losses of the portfolio, which is different from the initial objective of the IASB;
    f. it adds complexity to the accounting principles because an entity needs to calculate the impairment allowances under both methods (time-proportional and floor) before it can decide whether the floor should be applied;
    g. judgement and estimate play again an important rule in the financial reporting;
    h. the floor is introduced in order to avoid a situation where the actual losses are above the credit allowances. This can happen when a portfolio is facing an early loss emergence. However, when the open portfolio is well balanced and an entity is in an ongoing concern situation, the weighted average age of the portfolio is expected to be on average of the weighted average life. In other words, for such open portfolios the floor will be less relevant. Dexia believes that there are alternative approaches. One example could be a time-proportional approach based on the expected loss profile of the underlying portfolio. This is quite similar to the accounting principles for property, plant and equipment or intangible assets. For these assets, the IAS standards state that amortisation/depreciation should be based on expected revenue pattern;
    i. we do not see any value added by this minimum amount requirement considering there is already an allowance for incurred losses equal to the life time expected losses. If the Boards aims to reflect risk management policies in the financial statements like it did for distinction between good book and bad book, then it should take into considerations that any additional credit allowance based on such a floor has no risk justification. In other words, the characteristics of the assets nor an underlying economy justifies the impairment amount reported under the floor.

(a) Question 10 – Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph é(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

18. As we explained in question 9, Dexia strongly disagrees with the minimum impairment allowance amount (ie the floor) because it prevents from reaching IASB primary objective as stated in BC 58 : ie impairment should reflect the link between the pricing of a financial asset and the underlying economic activity. One of the consequences of introducing a floor for loans belonging to the good book is that two different timelines are to be applied in order to determine the amount of credit losses:
    a. one relates to the recognition of expected losses over the maturity of the assets which we considered as appropriate. As a matter of fact, change in expected losses (and unexpected losses) due to economic activity will impact the financial assets during its entirely life and not only on a foreseeable future;
    b. one relates to the recognition of expected losses in a (undefined) foreseeable future. The point is that this is not the way risk management monitors credit risk.

19. A combination of lack of clarity of the proposed floor and bad timing (both publication date of this document and due date for receiving the comment letters) made that Dexia was not able to fully and adequately analysis the impact of the floor.

20. It is clear that the IASB introduced the floor only for reasons of convergence with FASB. The only argument which could defend a floor is to recognise an appropriate amount of credit losses for those portfolios facing an early loss emergence. However, when the open portfolio is well balanced and an entity is in an ongoing concern situation, the weighted average age of the portfolio is expected to be on average of the weighted average life. In other words, for such open portfolios the floor will be less relevant.

21. Dexia believes that there are alternative approaches. One example could be a time-proportional approach based on the expected loss profile of the underlying portfolio. This is quite similar to the accounting principles for property, plant and equipment or intangible assets. For these assets, the IAS standards state that amortisation/depreciation should be based on expected revenue pattern.

Question 11 – The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

22. We recognise that flexibility in discounting/undiscounting expected cash flows will lead to a decrease in comparability between financial statements. Despite this disadvantage, we support IASB's decision to include some flexibility because such an approach reduces the operational complexity.

23. If based on the analysis of the comments received or outcome of the outreach activities the IASB would finally decide otherwise –and thus requiring discounting the expected cash flows, Dexia believes that using a risk free interest rate would be an appropriate alternative for operational reasons and because it increases the comparability of financial statements.

Question 12 – Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (ie to recognise expected credit losses over the life of the assets)? Why or why not?

24. Dexia welcomes the general concept and the simplifications made by the IASB because these incorporates many of the comments made by the constituents on IASB's exposure draft.

25. However, we disagree with the floor introduced by this supplementary document.

26. The supplementary document lacks clarification on how credit allowances between good and bad book are allocated. Conceptually, incurred losses in the bad book are not more than a crystallisation of initially/subsequently expected losses. We therefore believe that the credit allowances build up for the good book should be used to cover the incurred losses.

Question 13 – Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

27. Although the FASB's model could be considered as operationally less complex to be applied compared to IASB's model, Dexia does not support the that proposal because (i) it is not in line with our risk management approach which is based on good/bad book and for which credit losses are recognised differently (respectively time-proportionated and immediate recognition), (ii) the outcome will not reflect the economics of lending/pricing and (iii) concept of foreseeable future will lead to a decrease in comparability between financial statements.

Question 14Z – Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

28. We do agree that the determination of the effective interest rate should be separate from the expected losses. The main reasons are the following :

    a. splitting the effective interest rate and the expected/incurred credit losses is relevant information for users;
    b. avoids situations whereby a positive impact in credit allowance is reported. If effective interest rate would include overstated initially expected credit losses, then the consequences are the following: (i) interest income will be lower than what should be reported and (ii) reversal of that overstatement will subsequently reported as a gain via the reversal in credit allowances;
    c. reduces the complexity for implementing because (i) the effective interest rate method is yet operational and (ii) interest income is calculated via an accounting database, while credit losses are determined via a risk management tool. Combining both would require a considerable investment.

Question 15Z – Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

29. Dexia believes that a same impairment procedure should be applied for loan commitments because in practice loan commitments are yet scoped-in our internal risk management policy on impairment.

Question 16Z – Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

30. Before deciding whether same methodology should be applied for financial guarantees, the IASB should first clarify whether such contracts do fall under IFRS 4 or whether an entity may chose if it applies IFRS 4 or IFRS 9.

Question 17Z – Do you aree with the proposed presentation requirements? If not, what presentation would you prefer and why?

31. We do agree with the presentation proposals described in this supplementary document because it is a simplification compared to what has been proposed in the exposure draft.

Question 18Z –

(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?

(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

32. As already said in a previous answer, judgement and estimates do play a much more important role than under the IAS 39 principles. We therefore support the IASB's view to disclose all information considered as relevant by the users allowing a better understanding of an entity's financial position and performance. This will also enhance comparability and transparency between financial statements. However, the IASB should avoid an overload of disclosures because then the message could be killed. Dexia believes the IASB should pay sufficient attention during its outreach activities.

33. We welcome IASB's decision to delete the disclosure of vintage information and to replace the 'credit loss triangle' by other disclosures.

34. However, Dexia disagree with a five-year disclosure requirement. We do not see why IASB departs from its general principles on disclosing comparative information and imposes a much longer time horizon for this type of information. We would like to remind the IASB that the information is yet available in the previous financial statements.

35. Finally, we recommend the IASB to compare the disclosure requirements laid down by this supplementary document with the requirements under IFRS 7 to ensure there is neither overlap nor inconsistencies.

Question 19Z – Do constituents believe that the proposed disclosure requirements are appropriate?

36. Dexia disagrees with the position taken by the IASB regarding transfers between good/bad book. Conceptually, incurred losses in the bad book are not more than a crystallisation of initially/subsequently expected losses. We therefore believe that the credit allowances build up for the good book should be used to cover the incurred losses. We believe this should be reflected in the disclosures.

37. We noted a different approach between the disclosure requirements –which is based on movements during the year- and the impairment methodology –which is based on a portfolio which exists at reporting date.