



Foreningen af Statsautoriserede Revisorer

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Re.: Request for Information (“Expected Loss Model”). Impairment of Financial Assets: Expected Cash flow Approach

Representatives of the Accounting Standards Committee and the bank working party of FSR have discussed the “Request for Information” from the IASB on the feasibility of an expected loss model for the impairment of financial assets.

The expected loss model – contrary to the current incurred loss model – requires an entity to make an ongoing assessment of expected credit losses, which might require earlier recognition of credit losses. This *might* be useful for users of financial statements, but we find that notes provided according to IFRS 7 already ensure relevant information on fair value. It must be ensured, that the benefits of a new model outweighs the cost of implementing and applying this model.

We anticipate that an expected loss model will impose significant burdens on the preparers of financial statements, especially financial institutions, since data need to be collected for the whole portfolio and not only for the impaired loans.

It is our impression that the new approach is not defined clearly and might be less operational.

We have already in connection with the current incurred loss model seen various problems in establishing models which are able to identify objective evidence of impairment, especially for a portfolio of loans etc. We fear that an expected loss model would increase these problems. We think, that the data that would be necessary to identify the expected losses in an objective way are not available today in most Danish banks.

If it is decided to proceed with considering a new “loss model” we would suggest that the presentation and disclosure requirements are considered as well. E.g. you should consider to disclosure interest etc. (financial result) before deduction of expected losses and expected losses as separate items.

We would like to stress that a proper due process in developing a new model for expected losses is very important including further investigation and debate on the costs and benefits of this approach, field testing etc.

Finally we like to refer to the (draft) comment letters from FEE and EFRAG, which we fully support.

Yours sincerely,

Ole Steen Jørgensen
Chief consultant, FSR