



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Stockholm 31 March 2011

Supplement to ED/2009/12 Financial Instruments: Amortised Cost and Impairment

Financial Instruments: Impairment

Representing preparers' point of view, the Swedish Enterprise Accounting Group (SEAG) welcomes the opportunity to comment on the above-mentioned Supplement.

We are generally positive to the solutions proposed in the Supplement. We have therefore chosen to answer only a limited number of the questions raised in the Supplement.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

Dr Claes Norberg
Professor, Director Accountancy
Secretary of the Swedish Enterprise Accounting Group

*The Swedish Enterprise Accounting Group (SEAG) represents around 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.
Total net turnover of SEAG companies: 245 billion EUR
Total assets of SEAG companies: 335 billion EUR
Total number of employees in SEAG companies: 950 000*

Appendix

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?

Compared to the impairment model under current IAS 39, the proposed approach is a major improvement. An expected loss model as proposed will have the effect of forcing entities to report reserves when needed the most. This is an area where forward-looking is absolutely necessary as the financial environment change.

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.

We are in favour of having one impairment model for all relevant financial assets. The good book - bad book model is perhaps better suited for open portfolios, but if the model is flexible in application within its principle of an expected loss-estimation, it should be possible to use also for other financial assets. Perhaps there would be no need to classify some other instruments in a good or a bad book, but the general principle should apply.

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?

Yes, we agree.

Question 4

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

Yes, according to our understanding of the proposed approach it would be operational and in line with the way we follow up impairment issues today.

Question 5

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

Yes, it would provide information that is useful for decision-making since it would be in line with how we follow up on impairment issues today.

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?

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?

Regarding questions 6 and 7, we consider the guidance to be clearly described and operational, both from a preparer's perspective and from an audit perspective.

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?

Yes, we agree with the proposed model to differentiate between two groups and to have different methods of calculating the impairment allowance for the two groups. It is in line with the prevailing view on assets in scope of the proposal.

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?

- a) We agree that the flexibility should be given to allow for companies to use the approach aligned with the way risk management is performed.
- b) We agree that companies should be given the option to select the discount rate suitable in their local market based on legal environment and benchmark interests available.

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?

No, the former IASB-ED approach was not operational as it was proposed.

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?

No, we prefer the common proposal of this document. It is more in line with how we today look upon assets in scope of the proposal.

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?

In our opinion it must be allowed to determine the effective interest rate including *or* excluding expected credit losses, depending on the company's business model. If expected losses are small, then it probably makes most sense to determine the effective interest rate separately from expected losses, based on contractual cash-flows. On the other hand, if the company's business model entails issuing or purchasing high-risk debt with high yield requirements, then it seems more appropriate to take the losses into account already when determining the effective interest rate.

Question 17Z

Do you agree with the proposed presentation requirements? If now, what presentation would you prefer instead and why?

The supplement proposes interest revenue and impairment losses to be presented as separate line items in the statement of comprehensive income. We believe this is an improvement in comparison to the original Exposure Draft where as many as five separate line items were required. The original proposal would have been complicated, and difficult to understand for many users of financial statements. Now we are not entirely convinced that even two line items are necessary, and we think the issue should be coordinated with the Financial Statement Presentation project. The changes in the statement of comprehensive income should be implemented at the same time.

Question 18Z

- a) Do you agree with the proposed disclosure requirements? If no, which disclosure requirements 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?

In our opinion, several of the proposed disclosure requirements are unnecessary, or at least we do not think the benefit will exceed the cost for producing the information. The disclosures may also be sensitive in relation to suppliers and competitors. Examples of unnecessary disclosures are the development of the impairment allowance account over a period of five years, explicit disclosure of inputs and assumptions used to determine expected credit losses, analyses by portfolio or geography, disclosures related to internal risk management etc. This type of information should only need to be disclosed if it is important in order to understand the company's business.

Question 19Z

Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

Yes, we believe this would be logical.