

DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON IFRS 9 FINANCIAL INSTRUMENTS

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletter@efrag.org or uploaded via our website by 13 November 2009

NOTE TO CONSTITUENTS

EFRAG has been asked by the European Commission to provide advice and supporting material on IFRS 9 *Financial Instruments* as published by the IASB in November 2009 ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has prepared this draft technical assessment of the amendment against the criteria for endorsement set out in Regulation (EC) No. 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the EU.

It is expected that the Accounting Regulatory Committee (ARC) will consider IFRS 9 at its meeting on 19 November 2009. In view of this time table, EFRAG's Supervisory Board has given permission to EFRAG to carry out its due process with regard to endorsement advice and effects study report on IFRS 9 on a fast-track basis. An implication of this fast track process is that the consultation period on EFRAG's draft endorsement advice and draft effects study report on IFRS 9 is shortened to two weeks compared to a normal consultation period that usually runs for at least one month. Furthermore, EFRAG has had to base its initial assessments on a pre-ballot draft of IFRS 9 made available to EFRAG by the IASB on a confidential basis. The IASB will post the near-final draft of IFRS 9 on its website accessible to subscribers, eIFRS, the same day or shortly after this Invitation to Comment is issued. The near final draft to be published by the IASB is a later draft of IFRS 9 than the pre-ballot draft entrusted to EFRAG on a confidential basis and therefore can differ from the version EFRAG TEG has assessed. The expectation is that the IASB will publish the final Standard so that EFRAG may finalise its endorsement advice and effects study report on 16 November 2009.

In view of the exceptional procedures that EFRAG have had to follow on this occasion, EFRAG would like to stress the following:

- (a) This draft endorsement advice is subject to the final text of IFRS 9 to be published by the IASB. If the final Standard differs from the pre-ballot draft on which this advice is based in such a way that would challenge some of the significant considerations made as part of its draft assessments, EFRAG retains the right to withdraw this draft advice and reconsider its assessment of the Standard; and
- (b) While EFRAG always reconsiders its draft advice in the light of comments made by constituents, under these exceptional circumstances EFRAG would like to note specifically that, in the event that constituents raise significant concerns that there has not been enough time to evaluate IFRS 9, or if they provide compelling evidence that challenges EFRAG's assessments of IFRS 9 against the endorsement criteria, EFRAG will give significant weight to such concerns in formulating its final advice to the European Commission or may decide to postpone

finalisation of its advice.

Finally, it is noted that two EFRAG TEG members dissented from the draft endorsement advice and their views are set out in Appendix 4.

A summary of the key aspects of IFRS 9 is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

JED WRISLEY

FIDELITY INTERNATIONAL

- (b) Are you/your organisation or company a:

- Preparer
- User
- Other (please specify)

- (c) Please provide a short description of your activity/ the general activity of your organisation or company:

ASSET MANAGEMENT

(d) Country where you/your organisation or company is located:

UK (Organisation is global ex-USA)

(e) Contact details including e-mail address:

25 Cannon St, London, EC4M 5TA

jed.wrigley@fil.com

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the true and fair principle and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes

No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the amendment? If there are, what are those issues and why do you believe they are relevant to the evaluation?

3

EFRAG is also assessing the costs that will arise for preparers and for users on implementation of IFRS 9 in the EU, both on initial adoption and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete that assessment.

The results of the initial assessment are set out in paragraphs 8, 11, 15 and 23 of Appendix 3. To summarise, EFRAG's initial assessment of IFRS 9 is that:

(a) For preparers, there may be significant year one costs arising from initial adoption of the Standard and not significant costs from transition and additional disclosure requirements; and moderate ongoing incremental costs.

(b) For users, application of IFRS 9 is likely to involve significant additional costs in year-one and, for some users, moderate ongoing incremental costs.

Do you agree with this assessment?

Yes

No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

4 EFRAG's initial assessment is that IFRS 9 will reduce complexity in the classification and measurement aspect of reporting financial instruments (see Appendix 3, paragraphs 17 and 19) and that the benefits to be derived from that are likely to exceed the costs involved (see Appendix 3, paragraph 24 and 25).

Do you agree with this assessment?

Yes

No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the amendment.

Do you agree that there are no other factors?

Yes

No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?
