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10 November 2009

Submitted by e-mail to commentletter@efrag.org

Draft Endorsement Advice and Effects Study Report on IFRS 9 *Financial Instruments*

Grant Thornton International is pleased to comment on the European Financial Reporting Advisory Group's (EFRAG's) Draft Endorsement Advice and Effects Study Report on IFRS 9 *Financial Instruments* (IFRS 9).

We believe IFRS 9 should be endorsed for use in the European Union. Our principal reasons for this view are that:

- In developing IFRS 9, the International Accounting Standards Board has undertaken a full and proper due process and very substantial outreach efforts. This includes extensive engagement with European Union stakeholders.

- We believe that IFRS 9 is a major improvement over the parts of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that it replaces. In particular we welcome IFRS 9's retention of a mixed measurement model based on a simpler, principle-based classification approach. We support the notion that classification should take into account the entity's business model and the contractual features of the instrument.

- We suggest that European companies will be placed at an unjustified disadvantage compared to those in other IFRS jurisdictions if IFRS 9 is not endorsed in time for application in respect of 31 December 2009 annual reporting periods.

- We find the arguments for non-endorsement, set out in Appendix 4 of EFRAG's draft letter, to be rather unconvincing. We comment below on some of the main arguments put forward in Appendix 4:

  - *'Further changes to IFRS 9 are likely'* - the same comment could be applied to many Standards. We believe that EFRAG's endorsement recommendation should be made based on IFRS 9's current requirements. Companies can then decide whether to adopt IFRS 9 before 2013. We would also suggest that endorsing the new Standard would itself reduce the likelihood of fundamental changes in future.

- *'IFRS 9 fails to bring the benefits in relevance and reliability'* - we disagree with this assertion, and with the dissenting view comment to the effect that the amortised cost category is too narrowly defined. We believe that IFRS 9 will enhance relevance and reliability by introducing a robust but principle-based approach to classification. We think that the classification approach should reflect both the entity's business model and the terms and conditions of the instruments in concern. We believe that, of the non-equity financial assets held by the European Union's 8,000 or so listed companies, the vast majority will be eligible for amortised cost measurement under IFRS 9.
- *Elimination of embedded derivatives* - we welcome the elimination of IAS 39's complex and rules-based requirements on embedded derivatives (in relation to financial asset hosts). We believe that these requirements are difficult to apply for many preparers, do not achieve comparability as a result of their reliance on 'bright lines' and lack a robust conceptual basis. We note that a number of common embedded derivatives, such as many prepayment and extension options, will not preclude the use of amortised cost.
- *Assymetrical treatment of assets and liabilities* - we suggest that IFRS 9 in fact achieves far closer alignment between the classification and measurement of financial assets and financial liabilities than is the case under IAS 39. We note that IFRS 9's two category approach, being amortised cost and fair value, is entirely consistent with IAS 39's financial liability model. We suggest that this step towards symmetry is more significant than the different approaches taken for embedded derivatives. Finally, in our view there are sound reasons to consider financial liabilities separately. In particular we believe: the 'own credit' issue needs to be addressed; it may be problematic to apply the same business model tests to liabilities; and most of the financial crisis-related accounting concerns relate to assets and not to liabilities.

Our responses to EFRAG's Invitation to Comment questions are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C Sharp

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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:

Grant Thornton International Limited (Grant Thornton International)

(b) Are you/your organisation or company a:
Preparer **User** √ **Other** (please specify)

International organisation of accounting and consulting firms

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

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

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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 - see cover letter

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.

N/A

(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?

No

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 prepares, 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

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

N/A

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

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

N/A

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

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

N/A