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European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels
Belgium

10 November 2009

Dear Sir / Madam

Draft endorsement advice and effects study report on IFRS 9 *Financial Instruments (relating to classification and measurement of financial assets)*

The global organisation of Ernst & Young is pleased to submit its comments on the European Financial Reporting Advisory Group's (EFRAG) draft endorsement advice and effects study report on IFRS 9 *Financial Instruments* relating to the classification and measurement of financial assets (the Invitation to Comment).

We have read EFRAG's assessment of the pre-ballot draft of IFRS 9 and we are pleased to note the update that there is no change to the draft endorsement based on EFRAG's assessment of the near final draft of IFRS 9. We understand that this assessment is made as part of the EFRAG's advice to the European Commission as to whether IFRS 9 should be endorsed for use in the European Union.

We would like to draw your attention to our comments on the Exposure Draft (ED) on *Financial Instruments: Classification and Measurement* addressed to the International Accounting Standards Board (IASB) in a letter dated 14 September 2009. We participated in the IASB's roundtables on this topic and have been following the Board's subsequent deliberations through to issuance of the near final draft of IFRS 9.

The near final draft of IFRS 9 substantially responds to the concerns of most constituents and many of the recommendations we had made in response to the ED. We therefore agree with the changes the IASB has made since the ED. In Appendix 1 to this letter, we have responded to the specific questions raised in EFRAG's Invitation to Comment and in Appendix 2 we have provided a copy of a recent letter to the European Commission.

Ernst & Young supports consistent application of International Financial Reporting Standards (IFRS) globally. Accordingly, we support EFRAG's draft endorsement advice that IFRS 9 *Financial instruments* be adopted for use in Europe.

Should you wish to discuss the contents of this letter with us, please contact Ruth Picker on +44 (0)20 7951 3497 or at the above address, or Tony Clifford on +44 (0)20 7951 2250.

Yours faithfully

Ernst & Young

Appendix 1

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:

Ernst & Young Global Limited

(b) Are you/your organisation or company a preparer, user, other (please specify)

Audit and accounting firm

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

Audit and accounting advisory services

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

Global organisation

(e) Contact details including e-mail address:

Ruth Picker (or) Tony Clifford

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ruth.picker@uk.ey.com (or) aclifford @uk.ey.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, we agree with EFRAG's assessment

(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?

We are not aware of any other factors except as set out in Appendix 2 to this letter.

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, we generally agree with the summary above. We expect ongoing costs to stabilise or decline as a result of the reduced complexity of the standard.

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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, we generally agree that the benefits of using IFRS 9 are likely to exceed the costs involved.

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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?

We are not aware of any other factors except as set out in Appendix 2 to this letter.

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Appendix 2
Commissioner Charlie McCreevy
Commissioner for Internal Market and Services
The European Commission
200 Rue de la Loi
Brussels 1049
Belgium

9 November 2009

Dear Commissioner McCreevy

Endorsement of IFRS 9: Financial Instruments

The Global organisation of Ernst & Young is writing to support the endorsement of IFRS 9: *Financial Instruments.* We believe that the International Accounting Standards Board ("IASB") has listened and responded to the requests of stakeholders as explained in Sir David Tweedie's Statement to the Council of the European Union (Economic and Financial Affairs) dated 20 October 2009. While the amended standard does not address every request of every stakeholder we believe that it has taken a balanced approach to resolving the issues identified. We reiterate our previously stated comments that accounting standards were not responsible for the financial crisis. We also reiterate that the primary purpose of external financial reporting is to meet the needs of investors and creditors who rely on the financial information provided to meet their decision-making needs and who are unable to command information tailored specifically to their requirements. The needs of prudential regulators are different and are aimed more at financial stability. Financial statements cannot always simultaneously meet the needs of both. To the extent that their needs differ, prudential regulators have the authority to require any additional information.

Within this context we believe that the amended standard, together with proposed changes to the impairment rules for financial instruments, respond satisfactorily to the calls of the G20, Financial Stability Board, and to the report of the Financial Crisis Advisory Group. In addition, the IASB undertook an extensive outreach and stakeholder consultation process to listen to the views of its constituents both before and after the issuance of the Exposure Draft that proposed the changes. The final standard indicates that the IASB responded to comments made during the exposure period. The resulting standard achieves the following:

- It is less complex than IAS 39 and should be easier to apply;

- It allows investments in debt instruments to be measured in accordance with the entity's business model and the characteristics of the debt instrument. This means that investments in most non-complex debt instruments that are not held for trading will be able to be measured at amortised cost, even if they are listed;

- It simplifies the accounting for investments in equity instruments. Such instruments are only required to be measured at fair value through profit or loss if they are held for trading. If they are not held for trading the entity has a choice of measuring the instruments either (a) at fair value through profit or loss or (b) at fair value through other comprehensive income ("OCI"). In both cases the impairment problems in IAS 39 identified by constituents are overcome. In the case of (a) impairments are automatically reversed and in (b) no impairment charges are taken to profit or loss. In the case of (b) dividend income is taken to profit or loss, as requested by respondents to the Exposure Draft;

- It clarifies the treatment of collateralised debt obligations and securitisations and responds to comments by constituents in respect of securitisation accounting; and

- It does not extend the use of fair value, as claimed by some commentators. In fact, it extends the use of amortised cost in circumstances where the entity's business model meets the required criteria. Overall, whether or not an entity's use of fair value will increase depends significantly on its business model, which we believe is the appropriate outcome.

Accordingly, we believe that IFRS 9 directly addresses the concerns raised by relevant stakeholders, while at the same time maintaining a technical basis for its requirements.

In addition, if IFRS 9 is not endorsed, European entities that wish to early adopt the standard would be disadvantaged relative to their peers in other jurisdictions.

We understand that a recent report issued in France raises the possibility that Europe might establish its own standard-setter if the IASB does not respond positively to the requests of European stakeholders. Apart from our belief that the IASB has listened to these requests in a balanced way, we believe that any such move will undermine and ultimately destroy the use of one set of financial reporting standards worldwide. Existing IFRS users outside Europe will be negatively impacted by such a move. Many of the countries that adopted IFRS (in Oceania and Asia for example) did so on the basis of global consistency and comparability between listed companies.

If financial reporting standards become divergent between Europe and the rest of the world's IFRS adopters we foresee a scenario of the world retreating to national standards which is directly the opposite of what the G20 has called for.

Even though the other two phases of the IASB's project (impairment and hedge accounting) are not complete we do not think that the conclusions on those two phases would have significant consequences for phase one, as reflected in IFRS 9, as the topics are quite discrete. Accordingly we see little reason to delay endorsement until the later phases are complete. In addition, as the IASB is well-advanced in its thinking on impairment it is evident that it is responding to calls for new requirements that will require earlier provisioning for loan losses.

For the reasons set out above we strongly recommend endorsement of IFRS 9.

We would be very pleased to discuss this issue further with you at your convenience.

Should you wish to discuss the contents of this letter with us, please contact Ruth Picker on +44 (0)20 7951 3497 or at the above address, or Tony Clifford on +44 (0)20 7951 2250.

Yours faithfully

Ernst & Young

Cc: Director General Jorgen Holmquist
Deputy Director General David Wright
Director Pierre Delsaux