Federation of European Accountants
Fédération des Experts comptables Européens

Mr. Stig Enevoldsen
Chairman
Technical Expert Group
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: commentletter@efrag.org

12 November 2009

Ref.: ACC/HvD/SS/ID

Dear Mr. Enevoldsen,

Re: FEE Comments on EFRAG's assessments of IFRS 9 Financial Instruments

(1) FEE (the Federation of European Accountants) appreciates the invitation to comment on EFRAG's assessments in relation to the draft endorsement advice and effects study on IFRS 9 Financial Instruments ("the Standard") of 2 November 2009.

(2) We support EFRAG providing a positive endorsement advice and we agree with the conclusions and assessments formulated by EFRAG although some matters remain unresolved. We believe, as set out in our letter to the EC of 10 November in which we shared the profession's views on the endorsement of IFRS 9 and its potential wider implications, that EC endorsement of IFRS 9 at this stage is appropriate for the following reasons:

- Importance and need for a single set of global standards;
- Comprehensive review of IAS 39: responsiveness to demands made by the G20, FSB and the EU;
- Standard results after a proper due process with wide stakeholder consultation;
- Most of the European concerns are met, some are not; and
- European entities should not be deprived from the use of IFRS 9 on a voluntary basis because IFRS 9 is a better standard than the comparable parts of IAS 39 and easier to apply.

(3) We have noted the update that EFRAG has issued to its constituents and published on its website of 6 November indicating that the comparison of the near-final draft of IFRS 9, as published by the IASB on 2 November, with the pre-ballot draft of IFRS 9 on which the EFRAG draft endorsement advice and effect studies report was based and the changes the IASB has made did not require EFRAG to modify its analysis and conclusions in relation to the EFRAG assessments. This FEE comment Letter on EFRAG's assessments of the Standard is based on the near-final draft of IFRS 9.

EFRAG's technical assessment of the Standard against the endorsement criteria

(4) We present our comments on EFRAG's technical assessment of the Standard against the endorsement criteria in the Appendix to this letter.

(5) In our letter to the IASB dated 14 September 2009, we presented a summary of critical comments regarding the proposals of the Exposure Draft Financial Instruments: Classification and Measurement. We make reference to them in this letter where relevant. We have concluded that all our principal concerns have been met, recognising that financial liabilities are scoped out of the current part of IFRS 9.

(6) We note that the first part of Phase 1 (that results in IFRS 9 as published by the IASB in November 2009) deals with classification and measurement of financial assets. The second part of Phase 1 will deal with classification and measurement of financial liabilities. Phase 2, with an ED published on 5 November 2009 deals with impairment of financial assets at amortised costs and Phase 3 deals with hedging.

(7) Even though the development of the other two phases on impairment methodology and on hedge accounting might have some consequential implications for the classification and measurement requirements, FEE believes that it is likely that there will be only minor changes to the current new standard, if any, in particular since IFRS 9 embraces the mixed measurement model for financial assets and this model will also be applied to liabilities. A positive endorsement will confirm European support for the mixed measurement model. The fact that some consequential changes might be made to IFRS 9 at a later stage in the project should not impact on the decision to endorse the Standard in its current form, to make the Standard available for those EU entities who wish to early adopt. Any subsequent changes to the Standard will be assessed separately on their merits, since they are subject to a separate endorsement process.

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

True and Fair

(8) We agree with EFRAG's conclusions that the information that results from the application of IFRS 9 will meet the criteria of relevance, reliability, comparability and understandability and we are unaware like EFRAG of any other reason to be concerned about the accounting effect of IFRS 9. Like EFRAG, FEE sees no reason to believe that the amendment is contrary to the true and fair principle.

European Interest

(9) Like EFRAG, FEE is not aware of any reason to believe that it is in the European interest not to adopt IFRS 9. On the contrary, in our view, EU entities should be able to decide for themselves whether it would be of benefit to them to apply IFRS 9 early, similar to their peers in other IFRS countries outside the EU, rather than be put in a situation where it would be forbidden to use this standard. We are of the opinion that IFRS 9 is a better standard than the comparable parts of IAS 39 and easier to apply since it is based on the business model and less complex.

EFRAG's evaluation of the costs and benefits of the Amendments

(10) We broadly agree with the evaluation of the costs and benefits of the Standard as provided by EFRAG but have not carried out a detailed examination.

Assessment Process

(11) FEE is strongly committed to robust, high quality global principle-based financial reporting standards and supports the objective of creating a single set of global standards. The global solution now found by the IASB in the form of IFRS 9 should be strongly preferred to national or regional solutions and therefore, we believe that Europe needs to make every effort to prevent the creation of new deviations from IFRS. Non-endorsement of IFRS 9 at this crucial moment in time will be very damaging to the process of achieving one set of global standards and the confidence of other major economies that are currently in the process of adoption, or are considering adoption, of IFRS all over the world.

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

(12) The IASB and its staff are to be commended for their extensive and comprehensive consultation of all stakeholders, in particular European stakeholders, since the Exposure Draft was published in July. The final standard has been modified in comparison to the ED in several instances where stakeholder concerns were expressed. As such, it shows the responsiveness to many of the comments raised by a wide range of constituencies aiming at robust and high quality standard. We believe that the IASB has respected its due process that the final standard should therefore be acceptable to its constituency and, hence, lead to a positive endorsement in Europe.

Endorsement

(13) We support EFRAG's assessments of the Standard against the endorsement criteria, recommending adoption of IFRS 9. Moreover, additional grounds for positive endorsement can be found in the overall objective at stake - a single set of high quality global accounting standards as called for by the world's major governments through the G20 - as well as technical merits and due process considerations.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

Hans van Damme
President

APPENDIX

Relevance

Mixed measurement model

(14) Like EFRAG, FEE agrees that as stipulated in IFRS 9 in certain cases measuring financial assets at amortised cost accompanied by disclosures of fair value in the notes to financial statements might provide relevant information to users and that in other cases the only relevant measure for financial assets is fair value.

(15) FEE, like EFRAG welcomes and approves that the IASB continues to support a mixed measurement model and that the mixed measurement model is the basis of IFRS 9, driven by classification based on the business model. IFRS 9 includes improved guidance on the boundaries between the amortised cost and fair value categories by way of a series of examples. Positive endorsement of IFRS 9 provides a strong confirmation from the EU that the direction taken by the IASB in favour of a mixed measurement model is the right one and gives a strong signal to the IASB and others for continuing to require a mixed measurement model at global level as the best and viable solution.

Reclassification

(16) We believe that a classification system is at its simplest and most transparent if an instrument is required to be reclassified if it is no longer managed according to the business model that was the basis for its initial classification. We agree with EFRAG that requiring an entity to reclassify financial assets if it changes its business model might ensure that entities continue to report relevant information following such a change. Moreover, we support EFRAG's comment that entities will be required by IFRS 7 to provide disclosures to make such changes transparent.

The fair value option

(17) We support retaining the fair value option to mitigate an accounting mismatch as referred to in our letter to the IASB on the ED Financial Instruments: Classification and Measurement.

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

Eliminate bifurcation of embedded derivatives

(18) We are of the opinion that the long term objective of a principles-based standard should be a single classification approach for hybrid contracts with financial hosts and agree in this respect with the direction of the IASB proposals to eliminate bifurcation of embedded derivatives for financial assets. IFRS 9 solves the problem of the current very complex rules for bifurcation of embedded derivatives in financial assets in a principle- based way and – in line with the FEE proposals – retains the current rules for embedded derivatives in financial liabilities, thus avoiding undue income statement effects from fair valuation of own credit risk in financial liabilities hosting the embedded derivative. Retaining the existing requirement for embedded derivatives in financial assets would not meet the objective of reducing complexity in financial instruments accounting.

The "fair value through OCI" option for equity instruments

(19) We note that the requirements in IFRS 9 that prohibit the recycling on realisation of gains and losses on equity investments that were initially recognised in other comprehensive income might be viewed by some as not resulting in relevant information. In the Standard the "fair value through OCI" option for equity instruments requires recognition of dividends in the income statement, which has been requested by many stakeholders and also was proposed as a compromise solution by others. The issue of recycling realised gains and losses will need to be reviewed within further pending IASB projects.

(20) We support EFRAG's comments that on balance IFRS 9 satisfies the criterion of relevance.

Reliability

(21) We support EFRAG's comments that the new classification model enables the business model to be faithfully represented through the measurement model. We are of the opinion that IFRS 9 is a better standard than the comparable parts of IAS 39 and easier to apply since it is based on the business model and less complex.

(22) We agree in principle with EFRAG that the requirements of IFRS 7 on disclosures about valuations of instruments whose inputs are derived from unobservable data should provide transparency and additional information about the reliability of fair value measurement information provided.

(23) We support EFRAG's comments that on balance IFRS 9 satisfies the criterion of reliability.

Comparability

(24) We consider that IFRS 9 classification requirements are based on a consistent classification approach based on a clear rationale that links classification and measurement to two distinctive criteria (the role of an instrument in a business model of an entity and characteristics of the instrument).

(25) We support EFRAG's comments that retrospective application should result in providing information that is comparable from one accounting period to the next. We also agree with EFRAG that the retrospective application also ensures that no additional issues of relevance, reliability and understandability arise when entities adopt the new requirements.

(26) We welcome the relief provided by the IASB in the transition provisions in order to facilitate not only early application of IFRS 9 for the 2009 financial statements but also for entities with non-calendar year ends and for the interim financial statements. One can only speculate as to how many entities would actually adopt IFRS 9 for the 2009 year-end financial statements, but EU financial institutions should have a choice whether or not to adopt.

(27) The transition provisions have been simplified to facilitate early adoption from 2009 onwards, with mandatory application in 2013. Comparability between entities during this transition period can in our view be ensured by the requirement to provide disclosures that highlight the effects from transition to IFRS 9 on reported information.

(28) We support EFRAG's comments that on balance IFRS 9 satisfies the criterion of comparability.

Understandability

(29) We agree that EFRAG's considerations and conclusions reached under relevance, reliability and comparability, apply here as well.

(30) We support EFRAG's comments that on balance IFRS 9 satisfies the criterion of understandability.

True and Fair

(31) We agree with EFRAG's conclusions that the information that results from the application of IFRS 9 will meet the criteria of relevance, reliability, comparability and understandability and we are unaware of any other reason to be concerned about the accounting effect of IFRS 9. Like EFRAG, FEE sees no reason to believe that the amendment is contrary to the true and fair principle.

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be

European Interest

(32) Like EFRAG, FEE is not aware of any reason to believe that it is in the European interest not to adopt IFRS 9. On the contrary, in our view, EU entities should be able to decide for themselves whether it would be of benefit to them to apply IFRS 9 early, similar to their peers in other IFRS countries outside the EU, rather than be put in a situation where it would be forbidden to use this standard. We are of the opinion that IFRS 9 is a better standard than the comparable parts of IAS 39 and easier to apply since it is based on the business model and less complex.

CONCLUSION

(33) We support EFRAG's assessments of the Standard against the endorsement criteria, recommending positive endorsement.