# COMMITTEE OF EUROPEAN SECURITIES REGULATORS

EFRAG

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**RE: EFRAG's draft comment letter on the IASB's Exposure Draft *Financial Instruments: Amortised Cost and Impairment***

The Committee of European Securities Regulators (CESR) has considered, through its standing committee on corporate reporting (CESR-Fin), EFRAG's draft comment letter on the IASB's Exposure Draft (ED) *Financial Instruments: Amortised Cost and Impairment*.

CESR supports the IASB's objective of developing an internationally acceptable alternative for the current incurred loss regime for impairment. The ED is an important part of the replacement of IAS 39 – *Financial Instruments: Recognition and Measurement*, of which IFRS 9 – *Financial Instruments: Classification and Measurement* as published in November 2009 was the first part. We believe that those documents represent a clear improvement to the present requirements of IAS 39 – *Financial Instruments: Recognition and Measurement*.

As securities regulators CESR shares EFRAG's view that improvements to IFRSs should be guided by the needs of users of financial information. We are supportive of what we believe to be the Board's primary improvement objective, i.e. to incorporate more forward looking information about credit losses into the amortised cost model. We note that the Board acknowledged that further discussion on the operational aspects of the model were necessary and that it therefore formed an Expert Advisory Panel (EAP) which has not yet finalised its work.

CESR believes that the IASB and prudential supervisors should try to align the different reporting requirements for financial institutions as far as possible in order to reduce burden for issuers. We however acknowledge that it is not possible to remove all differences and believe that, if a conflict does arise between the wide range of measures that prudential regulators may require institutions to adopt and the needs of investors that investor's needs should take precedence for the development of accounting standards. We believe this view to be supported by the Financial Crisis Advisory Group (FCAG). Relevance, transparency and enforceability are crucial elements for CESR in the development of accounting standards. As enforcers of IFRS we also would like to stress that a standard needs to be enforceable if consistent application is to be achieved.

CESR believes it important to emphasise that *any* accounting standard will have strengths and weaknesses and that thus no approach is 'perfect'. Having balanced those strengths and weaknesses we are supportive of the overall direction of the IASB's development of the model. We have however some comments on the proposals as well as some suggestions on how the standards can be further clarified in our opinion.

As mentioned above, the IASB formed an Expert Advisory Panel (EAP) to assist it with operational issues linked to the amendments proposed in the ED *Financial Instruments: Amortised Cost and Impairment*. CESR is like EFRAG concerned about the timing and due process applied to the activities of the EAP. We therefore believe that it is not possible to form a final opinion without knowing the outcome of the EAP's activities, which could mean changes to the standard either directly or through application guidance. We therefore urge the Board to make sure that a proper due process will take place surrounding any changes it makes to the proposed impairment model. Due to the considerable impact changes in the model could have for issuers and other stakeholders, including investors, it is essential that the Board provides constituents with the opportunity to comment and to give feedback on any revised model. Even if the Board's enhancements to the proposed model are in the form of application guidance, we believe it is important that any such guidance be authoritative (in order to be enforceable) and therefore subject to appropriate due process.

CESR broadly agrees with EFRAG's draft comment letter and in particular of EFRAG's suggestions to include further guidance in the standards to better understand the principles for example in the form of illustrative examples.

We do however not agree with EFRAG's proposal to make a distinction between short term trade receivables and other loans for disclosure requirements. We do, however, share EFRAG's concern regarding the presentation of impairment charges for non-financial entities outside the operating profit.

CESR also believes that EFRAG's concern regarding increased management judgement does not apply only to amendments proposed in the ED but also to standards already published, including the existing IAS 39 requirements. We believe that this forms an integral part of our preference for a principle based IFRS on financial instruments. Despite this, we find that it is crucial to have robust disclosure requirements on assumptions, considerations and other elements of management judgement as well as disclosures which allow assessment of management's judgement(for instance via loss triangles). Clear definitions and methods that are applied consistently are an important element in increasing confidence in reported financial information.

We also point out that we find it important that the standard should not be understood in a way that issuers are only allowed to operate with closed books. We do not read the standard this way but the concern raised by EFRAG and others calls for clarification, cf. point (e) in our answer to Question 4.

Finally, given our overall support for the ED, CESR is concerned about the fact that the FASB appears to be moving in a different direction. CESR is in favour of convergence between the reporting systems but not at the expense of the quality of the final IFRS standard.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy

Chair of CESR-Fin

**APPENDIX – CESR's detailed answers to the questions**

**Question 1**
**Is the description of the objective of amortised cost measurement in the ED clear? If not, how would you describe the objective and why?**

CESR believes the description of the objective of amortised cost measurement is clear. We are supportive of EFRAG's proposal to clarify the description of 'effective return" (paragraph 4) by emphasizing that current cash flow information is based on future expected cash flows.

**Question 2**
**Do you believe that the objective of amortised cost set out in the ED is appropriate for that measurement category? If not, why? What objective would you propose and why?**

*Additional objective of amortised cost*

CESR agrees with EFRAG and the IASB that an objective of amortised cost is to provide information about the effective return on financial instruments by allocating revenue. However, we believe that amortised cost equally provides relevant information about the instrument's capacity to generate future cash flows. We support EFRAG's proposal to include that other objective of amortised cost. This could be done by incorporating this other objective in paragraph 3 of the ED.

We consequently support EFRAG that the objective of amortised cost measurement should not only refer to the financial performance but also to the financial position of the entity. In line with the goals of financial reporting described in the Framework, a reference to the statement of financial position should be added. This would, in our opinion, avoid the impression that may arise that the application of amortised cost does not result in relevant information in the balance sheet.

*Short-term trade receivables*

In its draft comment letter EFRAG notes concerns about the proposals put forward in the ED to treat short-term trade receivables in principle in the same way as other loans at amortised cost. EFRAG states that many entities and non-financial institutions in particular, do not hold short-term receivables to generate interest revenue. Impairment costs related to such receivables are then typically considered as business expenses.

EFRAG therefore suggests that the IASB should only relate the objective of amortised cost to providing information on the effective return where such information is *relevant*. This objective should then be mentioned in relation to the principles on measurement, presentation and disclosure.

CESR believes that EFRAG's concerns should already be diluted by the principle of materiality as described in paragraph 8 of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* that the accounting principles in IFRSs need not be applied when the effect of applying them is immaterial. In addition, IAS 39.AG79 mentions that short term receivables with no stated interest may be measured at the original invoice amount if the effect of discounting is immaterial.

CESR does not agree with EFRAG's wish to differentiate between financial and non-financial institutions as we

(a) believe that it would be difficult to compose a definition that would draw a clear line distinguishing between trade receivables and other short term loans;
(b) think it would not be in line with the IFRS Framework to develop a different set of rules for alike transactions from one entity to another (i.e. financial and non-financial institutions);
(c) continue to support the current treatment of financial instruments on the basis of their characteristics and not how or where they were originated;

(d) we believe that short term trade receivables have similar characteristics to other short term loans.

In addition we would like to mention that it seems that the practical expedient in paragraphs B15 – B17 of the ED makes it easier for non-financial institutions to deal with this problem.

Having said this, CESR shares EFRAG's concern that the standard could be interpreted as meaning that it is not possible for non-financial entities to present impairment charges within operating profit.

**Question 3**
**Do you agree with the way that the ED is drafted, which emphasises measurement principles accompanied by application guidance, but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?**

CESR welcomes the principles-based way the proposed standard has been written. However we believe that it would be beneficial if the standard could be elaborated as suggested below without losing its principles-based character.

In particular, we

(a) think that it would be beneficial to bring some of the significant amount of useful information that is currently provided in the Basis for Conclusions into the standard. This would enhance the clarity of the standard by making it more operational and enable it to be more consistently applied in practice;
(b) agree with EFRAG's suggestion (paragraph 17 of its draft comment letter) to move some of the illustrative examples provided in the ED's Basis for Conclusions to the main text;
(c) regret the lack of further guidance in the proposed standards or in the IASB illustrative examples that were made available on the IASB's website on a pure floating interest rate (without benchmark). We will elaborate further on this in question 4.

The IASB formed an Expert Advisory Panel (EAP) to assist it with the operation issues linked to the amendments proposed in the ED *Financial Instruments: Amortised Cost and Impairment.* CESR is like EFRAG concerned about the due process applied to this expert panel and the timing of its activities.

Given that the EAP has, according to the IASB's website, meetings still scheduled on 21/ 22 June 2010 and that the Board is at the same time seeking views from constituents before 30 June 2010 it is not yet clear to us what the outcome will be of the EAP's activities and how they will be presented. We therefore believe that it is not possible to form a final opinion on the proposed amendments in this ED without knowing the outcome of the EAP's activities.

CESR finds it crucial that the status of the result of the work of the EAP is clear in order to be enforceable. Any part of the outcome that the IASB finds relevant should hence be part of the standard either as changes to the principles themselves or as application guidance. As such changes could have a considerable impact for preparers and other stakeholders, including investors, it is essential that constituents are provided with an opportunity to comment and to give feedback on any revised model. We therefore urge the IASB Board to make sure that a proper due process takes place regarding any changes it makes to the proposed impairment model, irrespective of the form those changes might take.

**Question 4**

**(a) Do you agree with the measurements principles set out in the ED? If not, which of the measurement principles do you disagree with and why?**

**(b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?**

EFRAG agrees with the IASB approach not to develop an impairment model based on fair value or through-the-cycle approaches. In paragraph 37 EFRAG sets out the view that the objective of financial statements is to provide decision-useful information to investors and other market participants. This paragraph further comments that providing high quality information to capital market participants increases confidence in markets and by doing so it contributes to financial stability. EFRAG also mentions that sometimes there could be divergent needs between the purpose of financial statements and the objectives of prudential supervision and that in such a situation the needs of investors must take precedence.

CESR shares these views. We think that the investor's needs must take precedence and that the objectives of prudential supervision must be achieved through other regulation, for instance capital adequacy rules. However, this does not mean that the prudential supervisor's needs should be ignored. In this respect we note the proposal made by Sir David Tweedie to the EU's ECOFIN committee on the 16th of March 2010 of introducing a *Regulatory Income Statement*. Such a statement would include a through-the-cycle-provision for regulated entities providing regulators with additional information on how such entities meet their financial stability objectives. We also urge the IASB and prudential supervisors to try to align as far as possible the different reporting requirements in order to save unnecessary costs for preparers, though we acknowledge that it is not possible to remove all differences because of differences in objectives.

Although broadly agreeing with the proposed measurement approach/principles underlying the proposed impairment approach EFRAG has raised some concerns on them:

*(a) Difficult to estimate the timing and amount of expected credit loss over the entire life of the instrument*

EFRAG calls on the EAP to provide further guidance on how to calculate probability weighted expected cash flows and to consider the issue of possible difficulties for entities to estimate the timing of credit losses over the lives of financial assets. In particular, EFRAG calls on the EAP to consider the possibility for practical approaches (i.e. the use of a possible proxy).

CESR agrees that there is a need for more guidance and practical examples to better explain these principles. This said, it is however important to bear in mind that even under the existing incurred loss regime it is necessary to estimate the timing and amounts of future cash flows (for both individual as group loans with objective evidence of impairment cfr. IAS 39.59), and for this CESR prefers the effective interest method. On the other hand, CESR considers it important that these assessments do not have to be carried out on an impracticable number of portfolios, cf. below under (e) on open versus closed portfolios.

A wish often expressed by banks is to take the parameters used for capital adequacy purposes as a starting point for the calculation of the accounting parameters. CESR acknowledges that there are important differences between the two sets of parameters, for instance the time horizon and the point-in-time approach versus a through-the-cycle approach. Like EFRAG CESR supports the approach chosen by the IASB. We would, however, find it useful if the IASB provided guidance and some illustrative examples on how to get from one approach to the other in practice. By producing such guidance and examples the IASB could help preparers and at the same time make the standard easier to enforce.

We would also like to note that the complexities and difficulties associated with these assessments might be compelling for some specific banks. Especially some small and medium sized entities might not have sufficiently specific historical data, not the least in an introductory phase. For those and similar entities the IASB should acknowledge and encourage the role that sector organisations, prudential regulators and other similar institutions might play in providing such historical data. This could improve the ability of these entities to estimate impairment losses especially on the introduction of the standard.

*(b)* *Increased use of management judgement involving unobservable inputs*

In EFRAG's view, the impairment model proposed in the ED relies heavily on management's ability to estimate future cash flows, including credit losses, but concedes that this may not be unique to this exposure draft. There is also a concern that approach will facilitate earnings management and that it may be difficult to audit these changes as the information may be based on unobservable inputs.

In general, we understand EFRAG's concern and think that these issues have already proved to be challenging in practice in the existing incurred loss model which also requires judgement in determining when a loss has been incurred as well as in estimating the amount of that loss. CESR believes that this is an unavoidable feature of the measurement of financial instruments where future cash flows are the only possible basis and that the best way to accommodate these concerns is to require appropriate disclosures. Such disclosures would include requirements relating to the methods used, assumptions applied and narrative disclosures about the reasons for changing expectations. Hence, CESR finds that para 17 (c) is vital.

(c) *The bases for recognizing changes in estimates of expected credit losses in profit or loss in the period of the re-estimate should be better explained*

CESR agrees that it would be better if the IASB explained why changes in estimates of expected credit losses should be recognised in profit or loss in the period of the re-estimate. It would also be useful to better explain why the IASB has chosen a principle which does not allow that the part of the gain or loss which relates to cash flows of future periods to be spread over the remaining life of the loan instead of being recognised in the profit and loss account in the period where the expectation changes. The IASBs choice is in line with the principles of other standards including IAS 39 (except IAS 19 – *Employee Benefits*), where changes in future cash flows have an immediate effect on the value of the instrument and this change is recognized in the income statement.

*(d)* *Recognition of impairment gains could be counter-intuitive*

It would appear possible to recognize an impairment "gain" without having recognized an impairment loss in the profit or loss in previous periods. This gain will be offset by credit losses anticipated at initial recognition which will continue to be amortised over the life of the instrument as a component of net interest revenue. The revenue will however never exceed the gross contractual interests discounted at the original effective interest rate of that particular instrument. CESR agrees with EFRAG's suggestion to move this description that is already provided in BC36 to the standard for a better understanding of this phenomenon.

*(e)* *The treatment of revolving financial assets (i.e. credit cards and loan facilities) should be addressed (here or in relation to IAS 37 – Liabilities and Provisions)*

EFRAG understands that many short and medium-term loans are automatically extended or renewed by the lender's contractual option to continue or to extend the lending for future periods. These assets are often managed as a part of homogeneous portfolios. It can consequently be difficult to identify individual defaulters and the lender must therefore estimate and manage the credit risk on such a portfolio basis. Where there is no contractually agreed option to renew or extend an estimate might be slightly more difficult to make. Some market participants argue that a contractual obligation should be treated similarly. EFRAG believes that this issue should be addressed by the IASB or the EAP. Furthermore EFRAG believes that IASB should provide consistency with IAS 37 on the measurement approach for undrawn loan commitments managed along with or on the same basis as financial assets.

CESR agrees that this issue should be clarified. CESR finds, however, that if the credit exposure substantially increases, the lender may decide not to renew the loan, and the borrower has the same option.

CESR has difficulty in accepting recognition of impairment losses for assets not yet on the balance sheet (future loans), because this would not be in accordance with more fundamental accounting principles. The fact that impairment is assessed on a portfolio basis does not change this view. CESR understands from paragraph 38 of EFRAG's draft comment letter that it shares this view with CESR and that only assets recognised at the reporting date can be included in the impairment calculation.

New loans in existing loan portfolios should not be assessed for impairment as the expected losses have been reflected in the effective rate of interest and a group assessment of these loans could imply double counting. As a practical expedient it new loans are assumed to be loans granted since the last quarterly financial report, because it is not likely that (for practical reasons) there will be a new assessment of expected losses.

For the existing loans the discussion regarding open versus closed portfolios seems to overlook the fact that current IAS 39.AG87 prescribes that the grouping of loans "with similar credit characteristics" can either be done at initial recognition by the creation of vintages, which remain unchanged from one reporting period to the next even if the credit characteristics become less similar (closed portfolios) or at measurement date which means that loans migrate from one group to another if their credit characteristics change over time. The term "similar credit characteristics" has thus two different interpretations: 1) the borrowers are affected by the same factors (but not necessarily to the same degree) and 2) they share the same vulnerability to changes in their economic situation (but these changes could stem from different factors). Many banks use the latter approach (typically by using a rating approach), which can be considered an open portfolio approach, though it is not always clear from the debate what is meant by "open portfolios".

We would encourage the IASB to consider the practical implications of how some entities manage these types of assets and see if it is possible to find a sound and practical solution (a practical expedient) that is consistent with the new principles. We would also urge EFRAG to ask the IASB to confirm that the above understanding of open portfolios is in accordance with the new standard.

There is an issue not covered in EFRAG's comment letter that we believe is worth bringing to EFRAG's attention. We see a need for guidance on the calculation of the cash flows and the effective interest rate in cases where the interest rate is a pure floating rate with no incorporated benchmark component. What is worth noting is that at the initial recognition of the loan the issuer of the financial asset must decide on how many of the basis points contribute to the different cash flows, cf. the illustrative examples provided by the staff.

One of the illustrative examples shows the cashflow of a loan based upon Libor + 100 basis points (margin is closed). At initial recognition the bank must decide how these points contribute to "losses, costs and revenue" for the bank. For loans with a full floating interest rate (no benchmark component) the margin will be adjustable throughout the life of the asset and the margin related to either the expected loss or the future revenue will be adjustable. This case is more relevant in the retail market and describes the economic reality of banks adjustments of margins where historical data is good. It is not clear from the staff example how an adjusted credit loss margin/future revenue will affect the effective interest rate and hence the subsequent measurement of the asset. CESR would like to see more guidance (possibly provided by the EAP) on a case where the calculation is difficult and where management judgement is critical (due to the open margin).

**Question 5**

**(a) Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the ED clear? If now, how would you describe the objective and why?**

**(b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortised cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?**

EFRAG is of the view that the proposed objective of presentation and disclosure in relation to financial instruments measured at amortised cost should be clearly linked to the measurement objective. In line with its response to question 2 EFRAG believes that there are certain cases where the presentation and disclosure objective may not be appropriate (i.e. specifically for short-term trade receivables held by non-financial institutions).

CESR has concerns regarding EFRAG's proposal to introduce a distinction between short-term trade receivables and other short-term loans. Our reasoning is set out as part of our response to question 2. We do, however, share EFRAG's concern regarding the presentation of impairment charges for non-financial entities outside operating profit.

**Question 6**

**Do you agree with the proposed presentation requirements? If not, why not? What presentation would you prefer instead and why?**

EFRAG broadly agrees with the proposed presentation requirements but has some concerns about the proposed presentation relating to short-term trade receivables held by non-financial entities.

As indicated in our response to question 1 above CESR sees problems in defining a principle determining whether the disclosure requirements should be followed or not other than the materiality principle as defined in IAS 8.

**Question 7**

**(a) Do you agree with the proposed disclosure requirements? If not, what 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 and why?**

EFRAG supports the majority of the proposed disclosure requirements, but suggests that the level of disclosures required to be reported by non-financial entities be reduced where appropriate. EFRAG however thinks that all information related to financial instruments is inherently linked and can only be fully understood if it is considered as a whole. That is to say that further work should be conducted on the relationship with IFRS 7 – *Financial Instruments: Disclosures.*

As stated above CESR believes that EFRAG's concerns are mitigated by the materiality principle as described in paragraph 8 of IAS 8. As mentioned in our response to question 2 CESR does not support a distinction between financial and non-financial entities. We however agree with EFRAG that the disclosure requirements related to amortised cost of financial instruments should be combined in IFRS 7.

*Loss triangle*

EFRAG considers the "loss triangle" disclosures a key component of the proposal as they provide transparency into an entity's ability to accurately estimate future credit losses.

CESR agrees with EFRAG but would like to stress that it is important that management is able to "justify" that the expectations, estimates and judgement are efficient, relevant and within the boundaries of data. We therefore believe that the standard should introduce the concept of back-testing. CESR also lays great weight on disclosure requirements related to estimates and changes in estimates and supports the requirement for loss triangles.

*Stress Testing*

CESR agrees with EFRAG's concern about comparability as stress testing information is only to be provided by some entities, i.e. if an entity prepares stress testing for internal risk purposes). We do not support going down this path. However, we note that as the model is based on probability weighted estimates of cash flows, reporting entities will have to carry out some form of sensitivity analysis in order to assess the effects of alternative assumptions. CESR therefore proposes to change this requirement for stress testing information to one asking disclosure of sensitivity analyses (if the assets are material).

Nevertheless we believe it is useful for investors to be provided with information linked to stress testing if an entity is obliged by a third party to perform such tests. This should be disclosed in line with the disclosure of capital adequacy requirements as prescribed in IAS 1, paragraph 135 (d).

*Non-Performing Assets*

CESR has concerns similar to EFRAG regarding the bright-line rule in the definition of non-performing assets:

(a) We feel that the 90 days proposed in the definition seems to be very long compared to current practice, at least in the financial sector;
(b) CESR thinks that the definition of non-performing assets as provided in Appendix A should also include assets that are individually impaired. Non-performing loans should encompass assets past due, individually impaired assets and uncollectable amounts;
(c) We do not agree with the distinction made in the definition between assets that are fully uncollectable and other impaired assets where the uncollectable amount is less than 100 per cent.

Furthermore we would like to suggest that disclosures on their evolution over time should be given for each of these subgroups as this information is very useful for investors.

CESR is not convinced that the disclosure requirement on origination and maturity (vintage) information will necessarily add value to the users of financial statements (Paragraph 22 and B29) as its present wording is unclear as to whether both origination and maturity should be given by classes or not. The same ambiguity exists in the present IFRS 7. This has also to do with the closed versus open portfolios mentioned under question 4. Disclosure requirements should relate to the choice made by the entity on grouping loans with similar credit characteristics at first recognition or at subsequent measurement dates.

CESR also finds that the proposed definition of write-offs could be improved. A more appropriate definition could be as follows: "A financial asset is considered uncollectible if the entity has no reasonable expectation of recovery. This consideration does not necessarily prevent the entity from performing further enforcement actions."

**Question 8**
**Would a mandatory effective date of about 3 years after the date of issue if the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?**

CESR agrees with EFRAG that a mandatory effective date of at least 3 years after the date of issue of the IFRS should allow sufficiently lead-time for implementing the proposals. We are also supportive of the idea that the IASB should make clear that adoption of this phase is independent of the other phases of IFRS 9 – *Financial Instruments*.

We see, however, a comparability problem with early adoption because of the length of the implementation period, even if IAS 8.30 requires information on the impact that the application of a new standard will have on an entity's financial statements.

**Question 9**

**(a)** **Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?**

**(b)** **Would you prefer the alternative transition approach (described above in the summary of transition requirements)? If so, why?**

**(c)** **Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirement to restate comparative information would affect the lead-time (see Question 8) please describe why and to what extent.**

EFRAG generally supports retrospective application but does not support full retrospective application of the transition from incurred to expected loss because of the risk of hindsight. Furthermore, EFRAG is strongly opposed to the alternative transition approach. EFRAG therefore suggests an alternative approach which it believes to be "more pragmatic". That approach would require entities to commit to a fixed data collection date (for instance 1 January 2011). Entities would then collect data that could be used at a later stage to calculate the expected cash flows on transition. There would be full retrospective application for financial assets recognised after that date. For financial assets recognised earlier, the entity should adjust the effective interest rate using information as of that date.

CESR shares EFRAG's view on the alternative approach mentioned in the ED, but prefers the main proposal in the ED over EFRAG's alternative approach. Though we acknowledge the risk of hindsight we find that the solution suggested by EFRAG is neither retrospective nor prospective application and we see problems with comparability between loans with different origination dates. Hence we support the suggested principle in the ED.

**Question 10**
**Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?**

Like EFRAG, CESR believes that it is important to indicate clearly the quantitative effect of the change in measurement. We consequently support the proposed disclosures.

**Question 11**
**Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?**

CESR agrees with EFRAG that the IASB should clarify whether it intends a different interpretation or level of materiality to be applied to the circumstances covered by the proposals in the ED. We believe that whenever an IFRS refers to the notion of materiality it should be applied as it is defined in IAS 8. We do not think that introducing a new principle is beneficial.

In CESR's view the requirement that using practical expedients does not give rise to materiality issues is important, because material differences would be an impediment to comparability.

EFRAG raises concerns in paragraph 120 of its draft comment letter that for a reporting entity to substantiate the application of the standard as immaterial, it may be required to calculate amortised cost according to the final proposals and compare the results using the practical expedient.

We do not think this is necessary. Issuers are already required to provide convincing evidence in many instances that not applying the standards in full does not result in a material error. In practice this can be done by performing the mentioned comparison on a representative sample instead of on the whole population or by other evidence that shows that it is not possible that the deviation can be material under reasonable assumptions.

**Question 12**
**Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?**

EFRAG states in its draft comment letter that it is not convinced that the proposed disclosures provide meaningful information for non-financial institutions. As EFRAG believes that those entities are not primarily engaged in financial activities and that providing more information might clutter the financial statements it encourages the IASB to scope-out these entities from the disclosures related to estimates and changes in estimates; stress testing information and the origination and maturity (vintage) information.

CESR agrees with EFRAG that the IASB should clarify whether it intends a different interpretation or level of materiality to be applied to the circumstances covered by the proposals in the ED. We do not believe that introducing such a difference is beneficial.
Except in cases were non-financial institutions are dealing with immaterial assets CESR finds it hard to understand why the disclosure requirements should be lessened as described above.

We would like to refer to our response to question 7 on disclosures related to stress testing and maturity (vintage) information.