Financial Instruments: Amortized Cost and Impairment

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

We agree with the draft response of EFRAG.

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

We agree with the draft response of EFRAG, namely with the concern of many non-financial institutions about the relevance of the information that will be generated as a result of the proposals.

Question 3
Do you agree with the way that the exposure draft is drafted, which emphasizes 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?

We agree with the concerns raised by EFRAG, specially because as it is referred some of the concepts that are developed and explained within the basis for conclusions are important and could be moved to the main text of the standard. This is particularity important because in Europe only the standard and the application guidance can be endorsed.

Question 4
(a) Do you agree with the measurement principles set out in the exposure draft? 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?

We agree with EFRAG`s response and we share the concerns, particularly, about:

- The difficulty in estimating the timing and amount of expected credit losses over the life of the financial instrument
- The increase of management judgment to calculate expected cash flows leading to unobservable inputs
- The basis for recognizing changes in estimates of expected credit losses in profit and loss in the period of the re-estimate
- The use of expected cash flows may not be the best estimate if we think for example of a long-dated loan on an emerging market counterparty

As to the profit or loss due to changes in estimates of expected future cash flows it seems that there are two possible views:

(a) Recognize them in profit or loss in the period of the re-estimate
(b) Any gain or loss relating to current and prior periods recognized in profit or loss in the year of the change in estimate. The portion related to future cash flows amortized over the remaining life of the financial asset

We think that the approach referred in b) could reduce volatility in profit or loss.

Question 5
Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the exposure draft clear? If not, how would you describe the objective and why?
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?

We agree with the view of EFRAG, and the proposed redrafting of the paragraph in order to provide information about the effective return of the financial asset, when it is relevant, which is not the case for short-term trade receivables

Question 6
Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

We share EFRAG´s view that the proposed presentation requirements is not suitable for short-term trade receivables held by non financial entities. There is little informational value in allocating and presenting on the same basis as interest revenue.

Question 7
Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?
What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?

We share EFRAG´s view about:

- The reduction of the level of disclosures to be reported by non-financial entities
- To omit the stress testing disclosures. As the stress testing disclosures are only required for some entities there is also a problem of comparability
- A clarification of the definition of non-performing assets preferably based on principles rather than on rules.

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

We also consider that at least three years after the date of issue of the IFRS would be an acceptable timing.

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 the 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.

a) Yes.

b) No.

c) Yes, in order to give rise to more comparable information to the extend that is proposed.

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

Yes.

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

Yes, but we share EFRAG's proposal of further relief for non-financial institution, especially concerning disclosure and presentation requirements

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?

No.

Lisbon, 2nd June 2010