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Exposure Draft ED/2009/12

Financial Instruments: Amortised Cost and Impairment

The Swedish Enterprise Accounting Group (SEAG) is a forum for Chief Accountants from the largest Swedish listed companies outside the financial sector. SEAG is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

Representing preparers' point of view, SEAG welcomes the opportunity to comment on the abovementioned exposure draft.

We have in the Appendix answered the questions posed by the Board. In summary, we believe that the proposed model could be appropriate for loans and similar instruments. However, for trade receivables we advocate retaining the incurred loss model with losses presented as costs in the income statement.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

Dr, professor Claes Norberg
Secretary of the Swedish Enterprise Accounting Group

Appendix

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?

Yes, in our opinion the description is clear.

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?

Yes, in our opinion the objective is appropriate for loans and similar instruments, but we believe a different approach would be more suitable for trade receivables.

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?

There are a number of issues where further clarification would be helpful in order to achieve comparative application among different companies, and we believe the accounting standard could benefit from a few illustrative examples. It is for example not clear whether or not companies are expected to calculate two different effective interest rates, excluding and including respectively the impact of expected losses. Another example is non-performing receivables which are purchased at a discount reflecting already incurred losses, and how to interpret the disclosure requirements for such receivables.

On the other hand, we are of the opinion that the principles described in the standard will not work for trade receivables, and we do not think the solution to this is to include more detailed illustrative examples.

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?

The underlying logic is compelling, and we believe the principles will result in an accounting which from a theoretical point of view is correct when applied on portfolios of low value and high volume receivables, e.g. bank loans.

On the other hand, for companies mainly having trade receivables which are of high value and low volume we believe the incurred loss model is better suited. Applying an expected loss model on normal trade receivables would result in an increased degree of arbitrariness and subjective judgments. We also disagree with reporting expected credit losses for trade receivables as a revenue reduction rather than as a cost.

Question 5
(a) 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?
(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?

We understand the description, but it is not clear to us how users will benefit from all required detailed disclosures.

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

We do not agree with the proposal to include line items such as gross interest revenue, allocation of initial expected credit losses and results from changes in estimates on the face of the statement of comprehensive income. We believe this type of information is far too technical to be understood by an average user of the financial statements, and we would suggest including this specification in a note instead. Furthermore, we do not understand how this requirement fits with the Financial Statement Presentation project.

Question 7
(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement 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?

We believe the proposed disclosure requirements are too detailed. Paragraph 17 c and d seem to be directed solely towards financial institutions. We believe these disclosure requirements are far too extensive for other entities. The volume of disclosures might distract the attention of active users from the core business of the reporting entity. For entities with few customers this kind of information could also be sensitive towards the customers. We suggest making the requirements more flexible depending on the circumstances of the entity concerned.

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?

Yes, we believe three years would be appropriate.

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? 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.

Yes, in our opinion the proposed requirements are acceptable.

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

Yes, in our opinion the proposed requirements are acceptable.

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

The whole exposure draft seems to have been written with banks and other financial institutions in mind. We appreciate the possibility for other companies to use practical expedients, and we believe even more simplifications should be allowed for companies which are neither banks nor financial institutions.

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?

Practical expedients and simplifications should in our opinion be allowed as long as the outcome is not expected to be materially different from a literal application of the measurement principles as described in the accounting standard.