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International Accounting Standards Board
30 Cannon Street
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United Kingdom
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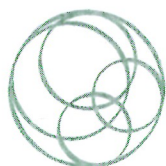
IASB Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9

Dear Sir/Madam,

The Swedish Bankers' Association appreciates the opportunity to respond to the International Accounting Standards Board's (IASB's) Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9 (ED). This letter represents the views of the Swedish Bankers' Association (the Association/We/Our).

The Association welcomes IASB's decision to consider making limited amendments to IFRS 9 to address accounting mismatches arising from and using different measurement models to financial assets and insurance liabilities. However, we are concerned with the introduction of a third measurement category based on business model. We believe that the construct is artificial and could force entities to classify certain financial assets at fair value through other comprehensive income category that would have been measured at amortised cost if the third business model had not been introduced. We believe that the use of a third classification category and its measurement principle should be optional.

The IASB's definition of interest only reflects the time value of money and the credit risk associated with the financial instrument. We believe that this definition is too limited as interest also includes other components such as liquidity risk. We are of the opinion that the framework needs to be more principles based and that IASB should use a wording concerning the definition of interest that is more general in its nature. Furthermore, we also believe that the dividing lines between different measurement categories, i.e. between fair value through other comprehensive income and amortised cost, are not clear enough and therefore needs to be clarified by the IASB. To retain the possibility to bifurcate embedded derivatives in financial



assets would decrease the need for such a clarification for many types of instruments.

Below please find our responses to those questions that are of most concern to us.

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purpose of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

We believe that it is helpful that the IASB has attempted to respond to the concerns raised regarding the possibility to classify financial instruments to the amortised cost category. However, the response has solely focused on the detailed cases raised by constituents, instead of more broadly focusing on the area of concern; that there might globally be a wide range of different traditional banking book products that may fail the test, or that the standard may force excessive burden of proof that they should not fail the test. We believe that the test that forces a calculation for each and every loan that is not connected to a reference rate based on future probably scenarios are too burdensome. Furthermore the principles developed do not reflect how retail, SME and corporate loans are priced. The test also fails to reflect the relationship between the pricing of financial assets and liabilities.

We also believe that the definition of interest is too narrow; (time value of money and credit risk). As the IASB has identified in the insurance project, there are more components in an interest rate than just credit risk and time value of money. Also in the application guidance to IAS 39 (e.g. AG82 in the 2005 version of IAS 39) more factors have been identified. Further to those parameters several other factors are considered when pricing loans, e.g. expected future behavior of the customer. We are of the opinion that the framework needs to be more principles based and that IASB should use a wording concerning the definition of interest that is more general in its nature. The focus should be at finding a principle that allow traditional, non-leveraged loans to be measured at amortised cost, while "forcing" leveraged instruments into the fair value category, if not bifurcated. We still believe bifurcation would be the preferred solution to this problem and that this would create consistency between how embedded derivatives in financial assets and liabilities are accounted for.

Question 2



Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

We believe that the guidance may be clear enough. However, we do not see it as operational due to the burdens introduced. See further in our answer to question 1.

We strongly believe that the proposed model is not operational in practice for loan portfolios. Our concern is much related to how the business models test should be performed. We need an application guidance that is operational for loan portfolios in financial institutions, not just for single financial instruments.

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

No. We are concerned that there are still certain financial assets that do not pass the contractual cash flow characteristics assessment and those assets would consequently be classified into a third measurement category even though an amortised cost measurement principle would provide more useful information than measurement at fair value through other comprehensive income.

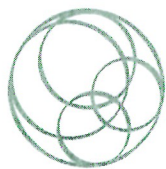
Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

- (a) interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and**
- (b) all other gains and losses are recognised in OCI?**

If not, why? What do you propose instead and why?

No. We believe that the use of a third business category is an artificial construct to handle the question of measurement mismatch between financial assets and



insurance liabilities. Instead of creating a new business model approach, the focus should have been on introducing an option to handle measurement mismatches. We are concerned that the introduction of a third measurement category could force entities to classify certain financial assets into fair value through other comprehensive income that would have been measured at amortised cost if the third business model had not been introduced. Furthermore, we believe that the border line between measuring at fair value through OCI or through P&L may be very thin and that just small differences may lead to different classifications even though the substance is not significantly different. Therefore entities should be able to elect at initial recognition to measure eligible debt instruments at fair value through other comprehensive income if by doing so accounting mismatches are reduced or eliminated.

Question 5

Do you believe that the Exposure Draft propose sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

No. The introduction of a third business model is an artificial construct and will therefore fail to be operational. To make it operational, the third category should be an option to reduce measurement mismatches. We believe that the IASB have made the wrong choice, to "come up with" a third business model, when the intent was to avoid measurement mismatches.

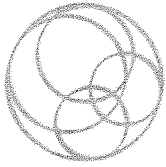
Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

Yes. For the reasons explained in our response to question 4, we believe that the use of a third business model and its measurement principle should be optional.

Question 8

Do you agree that entities should be permitted to choose to early apply only the "own credit" provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?



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Yes, we support the proposal that entities should be permitted to choose to early apply only the "own credit" provisions in IFRS 9 once the completed version of IFRS 9 is issued. However, we believe that an even better solution would be to amend IAS 39.

SWEDISH BANKERS' ASSOCIATION



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