BUSINESSEUROPE

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

21 February 2013

Dear Sirs,

Re: Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9

BUSINESSEUROPE welcomes the opportunity to comment on the proposal to amend IFRS 9 and also welcomes the IASB's decision to consider making additional changes to IFRS 9 *Financial Instruments*. We do consider that it would have been preferable for IFRS 9 to have been published not in a piecemeal manner but rather in a complete and internally consistent manner.

We continue to believe that IFRS 9 has been drafted mainly for financial institutions and hold the view that, similarly to IFRS 7, it places, an undue burden on corporates, by assuming that these have equally sophisticated business models, processes and policies in place as those of banks and insurance companies. This will, particularly for smaller companies, often not be the case.

With that in mind, while we appreciate the changes proposed by the Exposure Draft (ED), we think that there are several points in the proposal that should be improved. At the outset we would like to caution that many corporates are currently still waiting to see the complete IFRS 9 standard before they are even in a position to investigate thoroughly what the impact might be on their financial statements and therefore at this stage it is not possible to identify all the issues that may arise.

CONTRACTUAL CASH FLOW CHARACTERISTICS ASSESSMENT

We broadly support the conclusion that a financial asset with a modified economic relationship between principal and consideration for the time value of money and credit risk could be considered to contain cash flows that are solely payments of principal and interest. However, we are not convinced about the clarity of the current drafting:

- B4.1.9B indicates that an entity needs to consider the cash flows of abenchmark asset. owever it remains unclear from that paragraph at what point the cash flows may not be only insignificantly different. For example, we would imagine that some instruments might have more than insignificantly different cash flows between differing interest rate reset dates, but when accumulated over the overall contract period might not differ significantly. Therefore the

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question arises whether the assessment needs to carried out over the contract period or at reporting date. Furthermore, the ED does not clarify whether the cash flows to be compared are interest and principal cash flows or only interest cash flows.

- It seems unclear from the current draft if financial assets with early redemption features contingent on a future event, which will generally be deterioration of the credit risk of the issuer or change of control, would meet the contractual cash flow assessment. A strict reading of B4.1.12 would indicate that it would not be possible to satisfy the condition, and we would not support this outcome.
- We believe that, when hypothetical benchmark assets need to be established, in order to perform the required analysis for this, entities will have to perform detailed and burdensome assessments of each individual financial asset. We believe that this will result in potentially significant costs, particularly at implementation date, but also on an ongoing basis, and the lack of guidance on how such a hypothetical instrument should be constructed will result in a significant challenge, particularly for smaller entities.

BUSINESS MODEL ASSESSMENT

We believe that a classification of financial assets as fair value through OCI (FV-OCI) could be a useful addition to the current IFRS 9 categories. However we are concerned about the intended implementation:

- The ED indicates that if the business model is to manage such assets both to collect contractual cash flows and for sale (and meets the contractual cash flow test), the entity must classify these assets as FV-OCI. As indicated above, the standard assumes that all entities have strict business models, processes and policies in place for investments in financial assets. This is, however, not the case for many, particularly smaller, entities outside the banking and insurance industry.
- Example 1 in B4.1.4 has been amended in such a way that if entities want to realise "opportunity gains" it would not be allowed a classification of such assets as measured at amortised cost. In our view, a strict application of this example (which we believe is not in line with what is described in B4.1.3), could lead to the situation in which many corporates would be required to classify their complete financial asset portfolio as FV-OCI, simply because management wants to maintain the flexibility to sell its financial assets when it believes it is advantageous for the company. We do not believe that this classification would provide relevant information to the users of the financial statements and strongly suggest revising this example and including the crucial part of B4.1.4A ("greater frequency and volume of sales") already in B4.1.2A.
- In this respect we are not clear how insignificance in accordance with B4.1.3 should be assessed, e.g. is it judged in relation to the amount of assets sold compared to the total financial assets held in that category or to the total financial assets or in relation to the impact on profit or loss?
- We also believe that entities should be given an option to choose, at initial recognition, between the amortised cost and FV-OCI classification, particularly as we believe that the dividing line between these two categories is not necessarily clear-cut. In this respect it is unfortunate that the ED does not

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include any examples to demonstrate the judgment that needs to be applied to distinguish the FV-OCI category from the FV-P&L categories. This is particularly problematic, as it is - again with corporates in mind - somewhat unclear,whether the "residual" category is the FV-OCI or FV-P&L category.

On the other hand, we are somewhat concerned about the complexity that this additional category is adding to the accounting for financial assets, and particular care needs to be taken when the impairment guidance is developed / finalised. While we recognise the difference from the currently existing available-for-sale category, we urge the IASB to keep the guidance understandable and practical, in order to avoid the current discussions on that topic.

TRANSITION

In effect the ED tries to minimise the impact of having multiple versions of IFRS 9 available at different times, applying a "one for all" approach, requiring the application of the complete IFRS 9, once available.

We are generally supportive of this approach, as we believe piecemeal standard publication is a practice that should in fact never have been applied.

However, we do believe that the IASB should immediately revise the application date, as IFRS 9 is simply too complex (even for companies that have internally implemented the standard early and are now facing a burdensome further analysis due to the recent changes) and it is not clear when the final standard will be available. Particularly for European SEC registrants it would be not acceptable if there were a difference between IFRS as issued and that as endorsed by the EU with respect to IFRS 9, and the IASB should ensure that such a problem will not arise. We therefore believe that the IASB should move the application date to a later, more realistic date.

In this respect, and considering the overall progress of this project, we believe that the EU was right to indicate that it will only make a decision on endorsement once the entire financial instruments guidance has been finalised.

If you require any further information or explanation, please do not hesitate to contact us.

Yours sincerely,

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