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Our ref:	RJ-EFRAG 554 A
Direct dial:	0031 20 3010235
Date:	March 20th 2013
Re:	Comment on Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide you with comments in connection with your draft comment letter to the IASB regarding Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (the 'ED').

We appreciate all efforts of EFRAG in formulating an appropriate response to the proposals of the IASB and the very detailed and extensive answers to the questions. We understand the IASB's decision to consider making limited amendments to IFRS 9 Financial Instruments Phase I, based on feedback received from constituents and also to consider the interaction with the future IFRS on insurance contracts and to reconsider the classification and measurement model. However, the proposed amendments initially raise more questions to us than answers we can provide. In addition, the new proposals should be considered in the spirit of the entire guidance in IFRS 9 Classification and Measurement. As a consequence, we do not feel it is appropriate to respond to the individual questions in the ED. We would like to bring forward that the proposed amendments to IFRS 9 are not limited and could have far-reaching consequences which are currently incalculable. We have a number of general concerns regarding the proposals which are described below.

Interdependency other projects

- We note that an important reason to propose the amendments – especially the introduction of the 'fair value through other comprehensive income' category – is the interaction of the classification and measurement model for financial assets with the IASB's Insurance Contracts project. The Insurance Contracts project is still in progress and therefore we do not understand the timing of the proposed amendment to IFRS 9 without knowing what the proposed outcome of the Insurance Contracts project will be. It cannot be excluded that based on that outcome new issues may arise that would need further amendments to IFRS 9. Saying that, we believe that IFRS 9 Classification and

Measurement should be reconsidered in relation to the other parts of IFRS (including Impairment and Hedge Accounting), the aforementioned Insurance Contracts project and other projects. This should avoid that Classification and Measurement is a moving target before the other elements are finalised.

Introduction of the 'fair value through other comprehensive income' category for debt instruments

- One of the IASB's main objectives for replacing IAS 39 with IFRS 9 was to reduce the complexity of accounting for financial instruments, including the reduction of the number of measurement categories of financial instruments and to the even larger number of different measurement and presentation methods in IAS 39. The proposed amendments tends to the same level of complexity as the current IAS 39 classification and measurement guidance, and may even to a large extent have the same outcome. We question whether financial statements based on the classification and measurement provisions of IFRS 9 will result in more relevant and less difficult to understand information. When drafting IFRS 9 Classification and Measurement the original principles to enable more instruments to be measured at amortised cost was a step forward, but based on the current wording of IFRS 9 and the proposed amendments, we note a tendency that more instruments should be measured at fair value. We also refer to our comment letter dated 16 September 2009 regarding the first ED Financial Instruments: Classification and Measurement, in which we expressed our concerns about the tendency to measure more financial instruments at fair value.
  As said, we believe that under IFRS 9 and the proposed amendments to IFRS 9 more financial assets will be measured at fair value. This is due to the rather strict business model requirements, for instance regarding the so called liquidity portfolios held by banks. This might result in a bigger portion of instruments to be classified in the 'fair value through other comprehensive income' category than desirable. We believe it will be a missed chance that IFRS 9 will restrict measuring instruments at (amortised) cost. In addition, we believe that the 'fair value through other comprehensive income' category is a compromise and a solution for companies dealing with insurance contract, but could be considered as a residual category for SPPIinstruments held by other companies when these instruments do not fit into the 'hold to collect' business model. In addition, determining the appropriate business model will need a high degree of judgement as there are no bright lines. This can be considered as too complex for preparers and users of financial statements. We do not fundamentally disagree with the proposal to introduce the 'fair value through other comprehensive income' category but suggest that it might be only applied by companies to avoid accounting mismatches (such as insurance companies) and that the amortised cost model can be relaxed so that more financial assets will qualify for that model.

Bifurcation

- We believe that the principle of bifurcation of embedded derivatives in financial assets as currently is allowed under IAS 39 should be carried over to IFRS 9. This is because bifurcation is used in certain situations to avoid the consequences of fair value measurement of the entire hybrid instrument. In addition, it is not logical not to have a symmetry in bifurcating financial assets and financial liabilities. We are also in favour to retain the 'fair value through profit and loss' option for such instruments.

Finally, we echo EFRAG's request to amend IAS 39 in connection with the permission to apply the 'own credit' provisions as proposed in the ED.

Considering our general comments on the proposals we recommend that EFRAG will also take into account the overall effect of such proposals and look to these in a wider context within the IASB's project of accounting changes.

We will be pleased to give you any further information that you may require.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board