RAAD VOOR DE JAARVERSLAGGEVING

Secretariaat:
Antonio Vivaldistraat 2-8, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 02 35
F +31(0)20 301 03 02
rj@rjnet.nl
www.rjnet.nl

EFRAG
Attn. EFRAG Technical
Group
35 Square de Meeûs
B-1000 Brussels
Belgique

Our ref: RJ-EFRAG 560 B
Direct dial: 0031-20-3010235
Date: June 20th 2013
Re: Comment on Exposure Draft *Financial Instruments: Expected Credit Losses*

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment in connection with your draft comment letter to the IASB regarding Exposure Draft *Financial Instruments: Expected Credit Losses* issued in March 2013 (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. Although we understood the integrated effective interest rate concept as proposed in the 2009 exposure draft, we were of the opinion that this concept was too complex. Similar, the time proportionate model as proposed in the 2011 Supplement to that exposure draft included mechanics that were not sound and easily implementable.

The new proposed approach has some elements that are conceptually not proper, such as recognition of a portion of expected credit losses at initial recognition. However, we agree with EFRAG that the proposed approach is an acceptable balance between the cost of implementation and the underlying economics and meets the need to provide earlier for expected credit losses as expressed by financial regulators and other constituents. The proposed approach will result in a more timely recognition of expected credit losses, and hence addresses the weakness of an incurred loss model in a pragmatic way. Therefore, in the absence of a better alternative at this stage, we accept the proposed approach.
In this context, we agree with the proposed principle that lifetime expected losses are recognised (only) when there is a significant increase in credit risk since initial recognition, but we believe that such approach can only be successful if the determination of when a significant increase in credit risk has occurred is principle-based, using management judgment

and existing credit risk management practices. Guidance and examples in the standard should not result in setting “bright line” thresholds.

Finally, we support EFRAG’s initiative to undertake a field test in order to substantiate the impact on the proposed model.

Our detailed responses to the questions as well as our responses to your specific questions to constituent are included in appendix A of this letter.

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

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix A – Comments to the EFRAG letter and responses to specific questions

Question 1

(a) Do you agree that an approach that recognises a loss allowance or provision at an amount equal to a portion of expected credit losses initially, and full expected credit losses only after significant deterioration in credit quality, will reflect:
(i) the economic link between the pricing of financial instruments and the credit quality at initial recognition; and
(ii) the effects of changes in the credit quality subsequent to initial recognition?

If not, why not and how do you believe the proposed model should be revised?

(b) Do you agree that recognising a loss allowance or provision at an amount equal to all expected credit losses from initial recognition, discounted using the original effective interest rate, does not faithfully represent the underlying economics of financial instruments? If not, why not?

We accept the proposed model in absence of a better alternative at this stage of IASB's financial instruments project. We agree with your response, although we recommend to you to reverse the reason why you accept the proposed model. This because of the proposed model is the outcome of a long deliberation about expected credit losses that is probably best workable at this stage. The view that the proposed model might however not theoretically be the best model is a little bit less relevant at this stage. For instance, we believe that the proposed model in the ED is better than the model as proposed by the FASB.

Question 2

(a) Do you agree that recognising a loss allowance (or provision) at an amount equal to 12-month expected credit losses and at an amount equal to lifetime expected credit losses after significant deterioration in credit quality achieves an appropriate balance between the faithful representation of the underlying economics and the costs of implementation? If not, why not? What alternative would you prefer and why?

(b) Do you agree that the approach for accounting for expected credit losses proposed in this Exposure Draft achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than the approaches in the 2009 ED and the SD (without the foreseeable future floor)?

(c) Do you think that recognising a loss allowance at an amount equal to the lifetime expected credit losses from initial recognition, discounted using the original effective interest rate, achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than this Exposure Draft?

In this context, we agree with the proposed principle that lifetime expected losses are recognised (only) when there is a significant increase in credit risk since initial recognition, but we believe that such approach can only be successful if the determination of when a significant increase in credit risk has occurred is principle-based, using management judgment and existing credit risk management practices. Guidance and examples in the standard should not result in setting "bright line" thresholds. Furthermore we agree with EFRAG's response.

Question 3

(a) Do you agree with the proposed scope of this Exposure Draft? If not, why not?

(b) Do you agree that, for financial assets that are mandatorily measured at FVOCI in accordance with the Classification and Measurement ED, the accounting for expected credit losses should be as proposed in this Exposure Draft? Why or why not?

We agree with EFRAG's response.

Questions to EFRAG's constituents

Are you comfortable having the same impairment model for both the amortised cost category and the FV-OCI category? Please explain.

If you prefer a different impairment model for the FV-OCI category than for the amortised cost category, please explain how this model would function and how it would reflect changes in credit quality.

We are comfortable having the same impairment model for both the amortised cost category and the FV-OCI category as this will remove some inconsistent accounting treatment of impairment that is currently applied regarding the available-for-sale assets.

Question 4

Is measuring the loss allowance (or a provision) at an amount equal to 12-month expected credit losses operational? If not, why not and how do you believe the portion recognised from initial recognition should be determined?

We agree with EFRAG's response.

Question to EFRAG's constituents

Do you believe that the '30 days past due' rebuttable presumption appropriately reflects when there is a significant increase in credit risk? If not, please explain why and what alternative period you would recommend.

We agree with the '30 days past due line' since an entity can rebut the presumption based on historical statistical information on portfolios with similar credit risk characteristics, and we believe that a longer period is not appropriate and the '30 days past due line' creates an operational simplification that makes the model workable. However, as mentioned in our response to question 2, we agree with the proposed principle that lifetime expected losses are recognised (only) when there is a significant increase in credit risk since initial recognition, but we believe that such approach can only be successful if the determination of when a significant increase in credit risk has occurred is principle-based, using management *judgment and existing credit risk management practices. Guidance and examples in the standard should not result in setting "bright line" thresholds.*

Question 5

(a) Do you agree with the proposed requirement to recognise a loss allowance (or a provision) at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition? If not, why not and what alternative would you prefer?

(b) Do the proposals provide sufficient guidance on when to recognise lifetime expected credit losses? If not, what additional guidance would you suggest?

(c) Do you agree that the assessment of when to recognise lifetime expected credit losses should consider only changes in the probability of a default occurring, rather than changes in expected credit losses (or credit loss given default ('LGD'))? If not, why not and what would you prefer?

(d) Do you agree with the proposed operational simplifications, and do they contribute to an appropriate balance between faithful representation and the cost of implementation?

(e) Do you agree with the proposal that the model shall allow the re-establishment of a loss allowance (or a provision) at an amount equal to 12-month expected credit losses if the criteria for the recognition of lifetime expected credit losses are no longer met? If not, why not, and what would you prefer?

We agree with EFRAG's response.

Question 6

(a) Do you agree that there are circumstances when interest revenue calculated on a net carrying amount (amortised cost) rather than on a gross carrying amount can provide more useful information? If not, why not, and what would you prefer?

(b) Do you agree with the proposal to change how interest revenue is calculated for assets that have objective evidence of impairment subsequent to initial recognition? Why or why not? If not, for what population of assets should the interest revenue calculation change?

(c) Do you agree with the proposal that the interest revenue approach shall be symmetrical (i.e. that the calculation can revert back to a calculation on the gross carrying amount)? Why or why not? If not, what approach would you prefer?

We agree with EFRAG's response.

Question 7

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

(b) Do you foresee any specific operational challenges when implementing the proposed disclosure requirements? If so, please explain.

(c) What other disclosures do you believe would provide useful information (whether in addition to, or instead of, the proposed disclosures) and why?

We agree with EFRAG's response.

Questions to EFRAG's constituents

Do you believe that any of the proposed disclosures give rise to operational concerns or are unnecessarily burdensome? If so, please specify those disclosures and explain why the concern arises.

Do you believe that the proposed disclosures are appropriate for all types of entities?

We support EFRAG's initiative to cover this topic in its field-tests. We note that a number of new disclosure requirements are introduced where we believe that the disclosures in this respect should be limited to the topic of the ED: impairment. When the disclosures relate to credit risk, these should be addressed in IFRS 7 Financial Instruments: Disclosures, and should be presented through an exposure draft.

Question 8

Do you agree with the proposed treatment of financial assets on which contractual cash flows are modified, and do you believe that it provides useful information? If not, why not and what alternative would you prefer?

We agree with EFRAG's response.

Question 9

(a) Do you agree with the proposals on the application of the general model to loan commitment and financial guarantee contracts? Why or why not? If not, what approach would you prefer?

(b) Do you foresee any significant operational challenges that may arise from the proposal to present expected credit losses on financial guarantee contracts or loan commitments as a provision in the statement of financial position? If yes, please explain.

We agree with EFRAG's response.

Question to EFRAG's constituents

Do you believe that a different impairment model should apply to loan commitments? If so, please explain how the model would function and reflect changes in credit quality.

We agree with EFRAG's initial response that the impairment model should also apply to loan commitments as these are often managed within the same business strategy. However, we support EFRAG's initiative to cover this topic in its field-test.

Question 10

(a) Do you agree with the proposed simplified approach for trade receivables and lease receivables? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree with the proposed amendments to the measurement on initial recognition of trade receivables with no significant financing component? If not, why not and what would you propose instead?

We agree with EFRAG's response.

Question 11

Do you agree with the proposals for financial assets that are credit-impaired on initial recognition? Why or why not? If not, what approach would you prefer?

We agree with EFRAG's response.

Question 12

(a) What lead time would you require to implement the proposed requirements? Please explain the assumptions that you have used in making this assessment. As a consequence, what do you believe is an appropriate mandatory effective date for IFRS 9? Please explain.

(b) Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree with the proposed relief from restating comparative information on transition? If not, why?

We agree with EFRAG's response.

Question 13

Do you agree with the IASB's assessment of the effects of the proposals? Why or why not?

We agree with EFRAG's response.