DANSKE
REVISORER
FSR*

EFRAG
35 Square de Meeus
1000 Brussels
Belgium

By e-mail: Commentletter@efrag.org

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FSR – danske **revisorer**
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

Dear Sir/Madam,

EFRAG Draft Comment Letter regarding Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses*

The Danish Accounting Standards Committee set up by "FSR - danske revisorer" is pleased to submit the following comments.

We generally support the EFRAG DCL. Especially, we share EFRAG's concern regarding the conceptual soundness of recognising a day 1 loss on loans which are not credit impaired. At the moment it is, however, more important to find a practical solution which could be implemented within a reasonable time frame rather than seeking further for a conceptually pure model resulting in an additional delay in implementation.

Our main concern relates to the applicability of the credit deterioration model for small banks. The proposal is based on credit risk management as it is performed by large banks applying the internal method for determining credit risk under the Basel capital adequacy provisions. Small banks do, however, often apply standardised method under which PD (Probability of default) data would not be required. The determination is instead made on the basis of a simplified credit risk segmentation model. We do not think that this results in the proposed model being inadequate. Rather, we are seeking for application guidance which bridges from the strict PD language to more simplified credit risk management approaches, i.e. credit risk classes which are not directly linked to PD data. We notice that a more simplified approach is actually supported by illustrative example 2 which operates with loss rates rather than PD data.

Further, we have considered whether there is a need for further guidance in respect of when there has been a significant increase in credit risk. The term may be interpreted very differently.

We find that it would be appropriate to define the term "default" due to its central role in determining the level of loan loss provisions. The notion has a specific meaning in the capital adequacy requirements but it is not clear whether the meaning should be the same under the ED.

Finally we notice that financial instruments related standards including this Exposure Draft are often written from a financial services perspective and are generally not easy to understand and make operational for non-financial services entities. We find that the separate section describing the simplified approach for trade receivables and lease receivables aims at making the standard understandable and operational for non-financial entities, and hence this example of an exception to the general model should be retained in the final standard. Without having suggestions at hand we believe any other means of ensuring the final standard be as operational as possible to non-financial services entities would be welcomed.

Attached you will find our response to a few specific questions raised by EFRAG or where we have made additional considerations and further detailed comments.

We would be happy to elaborate further on our comments should you wish so.

Kind regards

Jan Peter Larsen
Chairman of the Danish
Accounting Standards Committee

Ole Steen Jørgensen
Chief consultant
FSR - danske revisorer

Response to specific questions

EFRAG's question to the scope of the standard (paragraph 45/46)

We are comfortable with having the same impairment model for both the amortised cost category and the FV-OCI category under the proposed limited amendments to IFRS 9.

Question 5 (b)

As set out in the cover letter, we find that there is a risk that the notion of significant deterioration in credit risk may be interpreted very differently. Illustrative examples based on specific changes in PD's might be helpful.

Detailed comments:

It appears slightly confusing that a practical expedient regarding determination of whether a change in the probability of default has taken place is addressed in the first paragraph of the application guidance, namely the 12 month PD expedient in the last sentence of B11. We propose that this sentence is moved to be after the explanation of the lifetime PD.