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Dear Ms. Flores,

EFRAG Draft Comment Letter on Supplementary document *Financial instruments: Impairment*

The Danish Accounting Standards Committee (DASC), set up by FSR, is pleased to comment on the EFRAG Draft Comment Letter on the IASB Supplementary document of Impairment of financial assets.

We share many of the concerns expressed by EFRAG. Especially, we are concerned that in this case, it appears that convergence has taken precedence over IASB's commitment to prepare high quality standards.

We agree that all financial assets carried at amortised cost should be measured using a consistent impairment model. Therefore, a simplified approach for open portfolios should comply with the general principles and not establish a separate model.

Further, we agree that an impairment model should reflect the link between the pricing of the asset and the expected credit losses. We find that the floor concept is likely to short-cut this link in situations such as acquisition of portfolios where there is a risk of a day 1 loss. We notice that the Boards are actually working on a mechanism to manage this issue. However, there is a risk that the model will become complex and introduce exceptions. In our view, it evidences that the floor concept is flawed.

We find that a time proportionate approach for the good book portfolio is appropriate because transfer to the bad book would ensure a full loan loss provision at an early point of time. Alternatively, we propose that the time proportionate principle for the good book is replaced by a pattern that reflects the timing of the losses. We are, however, aware that this principle contradicts with the idea behind decoupling recognition of interest income from recognition of losses because it would require preparers to estimate the timing of the losses over the life of a loan/loan portfolio.

We would be happy to discuss our comments further with you.

Kind regards,

Jan Peter Larsen
Chairman of the Accounting Standards Committee

Ole Steen Jørgensen
chief consultant, FSR