

Exposure Draft Financial Instruments: Expected Credit Losses

Questions to EFRAG's constituents

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

46 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.

In our response to EFRAG about the ED "Limited Amendments to IFRS 9", we already stated that we are against the introduction of the FV-OCI category because "the introduction of the new category FV-OCI would increase complexity and the level of judgment needed to apply in the accounting for financial assets without adding substantial benefits to the users of the financial statements."

In fact, we believe it will be difficult that the judgment of the preparer will be better than the market expectation. If the markets were efficient the difference of expected credit losses will already be reflected in the fair value of the asset.

If the ultimate objective of holding financial instruments measured at FV-OCI is selling them, it is not clear to us how it would be useful to account separately the impairment loss and the fair value changes.

Question to EFRAG's constituents

70 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 believe that the '30 days past due' rebuttable presumption represents an arbitrary period and as so is not conceptually supported. In many situations a 30 days past due period is expected and would not represent a significant increase in credit risk. In those cases this operational simplification would actually result in bigger complexity as it would force the preparer to find reasons to rebut the presumption.

We are more in favor of analyzing the historical statistical information of portfolios with similar credit risk characteristics instead of applying an arbitrary past due period.

In addition we believe that the simplification related to “investment grade” (“*if the entity estimates that the financial instrument has a low credit risk at the reporting date (for example, it is ‘investment grade’)* then the loss allowance (or provision) is measured at an amount equal to 12-month expected credit losses regardless of whether there has been a significant increase in credit risk”) could harm the objectives of the ED, since it would cause that significant increases in credit risk (for example, if the credit rating changes from AAA to BBB) wouldn’t be reflected as a change from stage 1 to stage 2, which would delay the impairment recognition, especially in situations where the revision of credit rating is not done in a timely manner, and would give rise to an increased reliance in credit ratings agencies.

Questions to EFRAG’s constituents

97 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.

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

We agree with the proposed disclosures for all types of entities affected by the ED and we don’t anticipate that they will give rise to operational concerns or are unnecessarily burdensome.

Question to EFRAG’s constituents

111 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 that the answer to this question should wait for the results of the field test to be carried out by EFRAG and the National Standard Setters ANC, ASCG, FRC and OIC.

Lisbon, 6th June 2013