

## INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to [commentletters@efrag.org](mailto:commentletters@efrag.org) by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

**EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.**

### Your details

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

OIC – Organismo Italiano di Contabilità

- (b) Are you a:

Preparer  User  Other (please specify)

National Standards Setter

- (c) Please provide a short description of your activity:

OIC issues national accounting standards, participates in the process of standard-setting of IFRS and provides technical support to National legislator on accounting matters.

- (d) Country where you are located:

Italy

- (e) Contact details including e-mail address:

[presidenza@fondazioneoic.it](mailto:presidenza@fondazioneoic.it)

**EFRAG’s initial assessment with respect to the technical criteria for endorsement**

- 2 EFRAG’s initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG’s reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- 3 EFRAG’s initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG’s reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

In paragraph 186 of Appendix 2 of the DEA it is argued that fair value accounting for financial instruments that do not meet the SPPI test can be considered as being prudent. We are unsure whether such an assessment can still be valid in the circumstances in which fair value accounting leads to the recognition of gains in profits or losses.

- (c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its

technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

**The European public good**

- 4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

*IFRS 9 compared to IAS 39*

- 5 EFRAG’s initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

*The lack of convergence with US GAAP*

- 6 EFRAG’s initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We believe that the IASB could consider whether the mandatory date of IFRS 9 should be aligned with the mandatory effective date of the US standard on financial instruments, being finalized by the FASB before the year-end. Although the two standards are different, they are based on the same concepts and represent the response of the standard setters to the requests from G-20 to find a common solution to the accounting for financial instruments. A common mandatory effective date would help the comparison between US entities and other entities adopting IFRS. This may also help to alleviate the issues related to the interrelation between IFRS 4 and IFRS 9.

*Impact on investor and issuer behaviour*

- 7 EFRAG’s analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

In relation to the impact assessment we note that in the cover note of the DEA is clearly stated that no conclusion can be drawn without a quantitative analysis. However, in the paragraphs related to the “impact on investor and issuer behaviour” there are some sentences that indicate conclusions that may not be demonstrated. For example:

Par. 86 *“EFRAG assesses that the new financial reporting requirements should have a limited impact of their own, if any, on banks’ pricing strategies or lending appetite”*

Par. 87 *“To the extent that the day-one provision will result in additional consideration of credit risk in lending decisions and credit pricing, EFRAG believes that this is a positive economic effect due to reduction in credit mispricing because lenders will be more mindful of the actual credit risk being*

undertaken.”

Par 90 “EFRAG notes that while competitive forces will not prevent banks from implementing such a short-term strategy, they might constrain it. This is because failing to satisfy the demand for loans with longer maturities would adversely reflect on the bank’s market share as well as the ability to build a long-term relationship with clients”

We suggest to eliminate these sentences since those are not demonstrated, or otherwise to quote the source of information used.

- (b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

*Inter-relationship of IFRS 9 with the future insurance contracts standard*

- 8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.
- 9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

- (a) Do you agree with this assessment and the subsequent advice to the European Commission?

Yes       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We understand that issuing the IFRS 9 without completing the reform of the IFRS 4, the IASB may have created a problem for insurers in presenting their annual performance. We have also been told that the reform of IFRS 4 will eliminate/reduce the unintended volatility created by the adoption of IFRS 9.

For this reasons we believe that a deferral of the application of IFRS 9 for insurers may be a solution. Such an approach should be investigated by the

IASB, should not be mandatory and should be applicable only to insurers.  
In any case we recommend the IASB to finalize the Insurance project as soon as possible.

- (b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We believe that any deferral on IFRS 9 should be provided by the IASB as an option for insurance businesses.

- (c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

EFRAG should deepen its technical analysis of the impact on conglomerates of deferring IFRS 9 for insurance entities in paragraph 106 (c) of Appendix 3. In particular it should be further considered the pros and cons arising from the coexistence of IAS 39 and IFRS 9 in the same consolidated financial statements.

#### *European carve-out*

- 10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We agree with this assessment. In particular, we agree with paragraph 117, because it could be appropriate to involve a legal expert to assess whether an update of the relevant paragraph on carve-out is needed, in order to avoid inconsistencies between IAS 39 and IFRS 9.

- (b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when

assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

*Costs and benefits of IFRS 9*

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG’s initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG’s initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

Yes  No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice.

13 EFRAG’s initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

Yes  No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice.

Overall assessment with respect to the European public good

- 14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

Yes  No

If you do not agree, please explain your reasons.

### Other issues for consideration

*Request to provide quantitative data on a confidential basis*

- 15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG’s [field-work policy](#) which is available on the EFRAG website.

Should endorsement be halted until quantitative data are available?

- 16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We think that the quantitative impacts of IFRS 9 would be important to know before endorsement and that EFRAG should try to estimate these impacts. However, in our view the endorsement should not be halted until quantitative data are available.

*Should early application of IFRS 9 be prohibited?*

- 17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.