



Mr. Roger Marshall
Acting President
EFRAG
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commentletters@efrag.org

22 June 2015

Ref.: CRPG/PFK/PPA

Dear Mr Marshall,

Re: FEE comments on EFRAG Draft Endorsement Advice on IFRS 9 – Financial Instruments.

- (1) FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with comments on the EFRAG Draft Endorsement Advice (DEA) on IFRS 9 – Financial Instruments.
- (2) FEE welcomes the draft endorsement advice and EFRAG's support of IFRS 9. FEE agrees with EFRAG's assessment that IFRS 9 is an improvement on IAS 39, in our view in particular with regards to hedge accounting, own credit risk and the new impairment model based on expected credit losses. The latter will generally lead to more timely loss recognition compared to the current incurred loss model under IAS 39, which as noted in the DEA, meets the G20's request made in the wake of the financial crisis to implement a forward-looking model for loss provisioning by financial institutions.
- (3) Given the improvements in reporting mandated by IFRS 9 we would welcome its swift adoption. Preparers, and particularly the financial services industry, will need time to implement the requirements of the new standard, but will not be able to begin this process until uncertainty surrounding the endorsement process is resolved.
- (4) Our principal comment on the draft endorsement advice relates to the potential deferral of the standard for insurance business activities, while IFRS 4 Phase II is being finalised by the IASB. We agree with EFRAG that the European Commission should ask the IASB to defer the effective date of application of IFRS 9 for institutions with significant insurance activities, or alternatively identify and assess any other workable solutions to address accounting mismatches that may obscure performance reporting by those institutions.

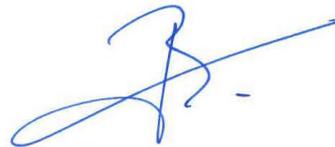
- (5) FEE stresses the importance of having an international solution for this matter. A Europe-only deferral would de facto be a carve-out from full IFRS, which in our view should generally be avoided as they do not come without consequences. Having said that, we recognise that the European Commission may consider deferral of the standard for institutions with significant insurance business activities within Europe - as a last resort – if the IASB would not introduce such a deferral nor find any alternative workable solution.
- (6) FEE believes that any deferral of IFRS 9 should be limited in duration, as it would be undesirable to have a significant new accounting standard, which is generally considered to significantly improve financial reporting for financial instruments, not being adopted by a significant segment of the financial sector in Europe for a prolonged period of time. Any deferral should be optional.

For further information on this, please contact Pantelis Pavlou, Manager from the FEE Team on +32 2 893 33 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,



Petr Kriz
President



Olivier Boutellis-Taft
Chief Executive

Enc: FEE responses to EFRAG's invitation for comment on its assessment on IFRS 9
Financial instruments

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

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

Please provide the following details about yourself:

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

Federation of European Accountants (FEE)

Are you a:

Preparer User Other (please specify)

European federation representing 47 professional institutes of accountants and auditors

Please provide a short description of your activity:

FEE represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 European Union (EU) Member States. It has a combined membership of over 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education. Adhering to the fundamental values of their profession – integrity, objectivity, independence, professionalism, competence and confidentiality – they contribute to a more efficient, transparent and sustainable European economy.

Country where you are located:

Brussels, Belgium

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

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 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.

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.

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.

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.

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?

We believe that clarifying the differences between prudent accounting and prudential reporting would be worthwhile. While for those that have adequate technical understanding, the distinction is clear, we believe that the endorsement advice should clarify this point, in order to avoid any potential misunderstandings.

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?

While we agree with the reference of IFRS 7 when assessing Understandability we believe that reference to the amendments of IFRS 7 should be made in the assessment of Comparability.

We believe that Comparability can also be achieved through the amendments of IFRS 7 and not solely by the numbers appearing on the performance statements, statement of cash flows and statement of financial position.

We suggest that EFRAG reviews the prominence of pros and cons for IFRS 9 in the different parts of the DEA to ensure that the readers (especially those that do not have an in depth technical knowledge of the standard) receive the right balance of a fair assessment that is in line with the overall conclusion.

The European public good

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

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.

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 the overall conclusion in para 52 of Appendix 3. As a suggestion, the reference to the own credit risk can be added, as this is another main improvement of IFRS 9 compared to IAS 39.

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?

None

The lack of convergence with US GAAP

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.

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.

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?

Impact on investor and issuer behaviour

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.

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 understand that it is was not possible to conduct a detailed impact assessment and indeed agree that it is not realistic to expect to be able to determine all possible impacts on investor and issuer behaviour in advance of a standard being implemented. Changes in behaviour are more likely to be a result of concurrent changes in the economic and regulatory environments so it would be difficult to isolate the effect of an accounting change.

The purpose of accounting standards is to underpin the provision of information to shareholders and other users. Providing such “true and fair” information is essential to supporting economic development and financial stability and as such we consider that the conceptual and technical merits of accounting standards should take precedence.

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?

None

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

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.

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.

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.

FEE agrees with the assessment by EFRAG.

We would strongly support EFRAG’s advice to the European Commission to work with the IASB to find a solution at an international level. A European carve-out is not the best solution as inter alia taking action at an EU level only, would not be a solution for those insurers with foreign (non-EU) subsidiaries and those insurers that are listed in the US.

As per our understanding, the IASB is working towards the completion of the IFRS 4 Phase II and, as communicated in the last Insurance Contracts Project Updated (May 2015), the expected completion date would not be before the end of 2015, with an effective date not earlier than 3 years after its completion. Any efforts for a deferral of the effective date for those insurance undertakings should be limited to a short period of time (allowing the IASB to finalise the new standard on insurance contracts) - e.g. 2 years.

Furthermore we believe that care must be taken when designing the scope of the deferral of the implementation date, especially for financial conglomerates or groups.

For instance some contracts that would meet the definition of insurance contracts are not necessarily issued by insurance undertakings. Therefore drafting the scope for such a deferral would need to take into account the divergence in practice. A potential deferral should be optional.

Finally we believe that an early application of the standard should be available to those insurers or conglomerates that want to apply IFRS 9 earlier as we understand that for different reasons an insurance undertaking or a conglomerate financial institution might prefer to implement IFRS 9 early.

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.

FEE stresses the importance of having an international solution for this matter. A Europe-only deferral would de facto be a carve-out from full IFRS, which in our view should generally be avoided as they do not come without consequences. Having said that, we recognise that the European Commission may consider deferral of the standard for institutions with significant insurance business activities within Europe - as a last resort – if the IASB would not introduce such a deferral nor find any alternative workable solution. In this case the Commission would have to weigh up the negative consequences for the EU as a whole of a carve-out from IFRS with the negative consequences for the insurance sector of not delaying the mandatory application of IFRS 9 for the sector.

In line with our comments above, we will only support such a deferral if an option for early application for those insurers that will adopt IFRS 9 early is available.

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?

None

European carve-out

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).

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.

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?

None.

Costs and benefits of IFRS 9

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.

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.

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.

We agree with the cost/benefit analysis. However, we note that the cost benefit analysis in the draft endorsement advice refers to the assessment being based on all practical expedients being available. We also note that the general accounting concept of materiality applies to the implementation of IFRS 9 and that implementation approaches applied should be commensurate with the size, nature and complexity of the financial instruments in scope of each approach.

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.

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

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

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.

None

Should endorsement be halted until quantitative data are available?

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 agree with EFRAG that the IFRS 9 endorsement process proceed as planned. Quantitative information will only become available once entities (especially banks) begin to implement the standard and they only start considering this once the uncertainty around the endorsement is resolved.

As indicated by preparers, the actual impact of the proposals of IFRS 9 will only become clear once the standard is applied therefore we cannot anticipate any actual information beforehand. Therefore we support EFRAG’s assessment.

Should early application of IFRS 9 be prohibited?

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.

We agree with EFRAG as we believe that if an entity wishes and can apply the standard early it should be able to choose to do so.