

ANSWER PROPOSED ACCOUNTING STANDARD UPDATE

Issued: Mayo 2010

CECA's answer to FASB Exposure Draft on

Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

CECA, the Spanish Confederation of Savings Banks (Cajas de Ahorros) was created in 1928 with the aim to join its members' forces and represent Spanish Savings Banks Sector. CECA is formed of the 45 Spanish Savings Banks, which are one of the most important players in Spanish financial system: their total assets reached €1.1billions, 24.050 branches in Spain and 124.139 employees in 2007.

Spanish Cajas are credit institutions that act and are organized as private enterprises. The have the legal status of private institutions. Spanish Cajas are independent institutions which compete directly and individually with each other and with other financial institutions and they are free to decide on their territorial expansion.

As credit institutions with foundational origins, Cajas pursue the following main objectives: (1) universal provision of financial services; (2) economic efficiency; (3) promotion and competition and avoidance of monopolistic practices; (4) contribution to welfare and redistribution; and (5) promotion of regional and community development. From their inception, Cajas are required to channel the surpluses that are not allocated to reserves toward project that fall under their "Obra Social" scheme (community investments projects).

Spanish Cajas are subjects to the same legislation that applies to other types of credit institutions (commercial and cooperative banks) in terms of transparency, solvency and consolidation.



ANSWER ON FASB EXPOSURE DRAFT

ACCOUNTING FOR FINANCIAL INSTRUMENTS AND REVISIONS TO THE ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Find enclosed below the answers for the highest priority questions for the Spanish Savings Banks.

SCOPE

Questions for all respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

Response to Question 1

In general CECA agrees with the proposed scope however we believes that certain subjects as investments in associates or insurance contracts should be treated in separate standards.

Question 2: The proposed guidance would require loan commitments, other than *loan commitments* related to a revolving line of credit issued under a *credit card arrangement*, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit type and investment contracts should be included in the scope? If not, why?

This question has been already answered in question 1.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

This question has been already answered in question 1.



Questions for Users

Question 5: The proposed guidance would require financial liabilities of investment companies to be measured at fair value with changes in fair value recognized as a net increase (decrease) in net assets. Do you believe that the effect on net asset value will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

Question 6: The proposed guidance would require money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940 to measure their investments at fair value rather than amortized cost. Do you believe that reporting those investments at fair value rather than amortized cost will provide decision-useful information? If yes, how will the information provided influence your analysis of the fund? If not, why?

Question 7: The proposed guidance would require brokers and dealers in securities to apply the proposed guidance for measuring financial liabilities, which could mean that qualifying changes in fair value would be recognized in other comprehensive income. Do you believe that this will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

Initial Measurement

Questions for All Respondents

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

Response to Questions 8, 10, 13, 15 y 23

CECA supports a classification approach that differentiate between amortised cost and fair value (mix measurement model) for both financial assets and financial liabilities based on the **business model** adopted by the entity in managing its financial instruments and the assessment of their financial characteristics.

A mixed measurement model would allow for a faithfully representation of different **business models**. CECA considers that amortised cost is the most relevant measurement basis for debt instruments which have basic cash flows characteristics and are held for the purpose of collecting/paying the instruments` contractual cash flows. On the contrary, measurement at fair value of financial assets and liabilities that are mainly classified in the held-for-trading category would better reflect their contribution to the entity's result and financial position.

The mixed measurement model as described above should be combined with an option in order to best reflect the links existing between assets and liabilities.



Additionally, as we expressed in our response to the IASB proposal on Classification and Measurement, CECA suggests that the measurement model should include:

- Recycling of the realized gains and losses to net income for equity instruments measured at fair value with changes in other comprehensive income
- Cost measurement for unquoted equity instruments
- Reclassification according to business model

Consequently, CECA is not in favour of the measurement model proposed by the FASB as it implies the measurement at fair value for instruments that the entity manages on a contractual yield basis and are not held for sale in the short term implicitly assuming an exit or "liquidation". CECA believes that this could be misleading as it would lead to the reflection of gains that might not be realized and losses that are not expected to occur. Therefore the FASB proposals would increase the use of fair value through profit or loss resulting in increased artificial volatility in earnings. In addition, CECA believes that measurement of all financial instruments at fair value would not reduce accounting mismatches.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

Response to Question 9

For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, CECA agrees with the recognition in net income of any significant difference between the transaction price and the fair value on the transaction date if that fair value is evidenced by observable market prices or, when using a valuation technique, by observable market data.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

This question has been already answered in question 8.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for



financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

Question for Preparers and Auditors

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

Response to Question 12

CECA believes that in general there will be no difference between the transaction price and fair value. That said, in respect of the proposed guidance to determine whether there is a significant difference between the transaction price and fair value, we believe that it requires an entity to consider a large number of factors and consequently will imply a high operational cost for entities.

Subsequent Measurement

Questions for All Respondents

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

This question has been already answered in question 8.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

Response to Questions 14 and 22

Under the FASB proposal financial instruments held for collection or payment of contractual cash flows should be measured at fair value with changes recognised in other comprehensive



income. Changes arising from interest accruals, credit impairments and realised gains and losses would be recognised in profit or loss while all other changes in fair value that indicates either the gains or losses that may be realized if the financial instruments cannot be held to collection or payment of contractual cash flows or the amount of opportunity gain or loss if the financial instruments are held to collection or payment of contractual cash flows, would be recognised in other comprehensive income.

CECA considers that measuring at fair value with changes in OCI debt instruments held for the collection or payment of contractual cash flows that are not marketable would incorporate subjectivity in the financial statements and would introduce volatility in equity that does not represent results of the **business model** adopted by the entity, therefore such information should be presented in the notes to the financial statements.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

This question has been already answered in question 8.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Response to Question 16

The FASB Board is concerned that reclassifications would lead to entities managing earnings by selling winners and holding loser. CECA is not convinced by this statement and believes that reclassification of financial instruments should be allowed when this reflects a real change in the **business model** of an entity. CECA considers that requiring classification considering only historical facts and circumstances that may have changed would not result in more decision useful information.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-incost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

Response to Questions 17 and 31

CECA is of the view that the proposed measurement approach for core deposits liabilities introduces unnecessary complexity. Additionally, the proposed model would rely on non-



observable inputs thus introducing subjectivity in financial reporting. Consequently CECA believes that deposits are best reported in the statement of financial position at the amount withdrawable on demand (amortised cost).

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

Response to Question 18

As explained in our responses to questions 8, 10, 13, 15 and 23 and to questions 14 and 22, CECA supports a mixed measurement model, based on the **business model** and the characteristics of the financial instruments.

CECA considers that financial liabilities, except for derivatives and financial liabilities held-for-trading, should be subsequently measured at amortised cost as this measurement better reflects the nature and use of those liabilities.

In conclusion, CECA supports:

- The measurement at amortised cost of financial liabilities that are neither derivative instruments nor those held-for-trading;
- The separation of embedded derivatives of hybrid financial liabilities and the requirement to account for such embedded derivatives at fair value through profit and loss;
- The presence of an option allowing for the adoption of a consistent measurement basis for financial assets and financial liabilities, if a consistent measurement better reflects the links existing between those assets and liabilities.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the



classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

Questions for Users

Question 22: Do you believe that the recognition of qualifying changes in fair value in other comprehensive income (measuring the effects of subsequent changes in interest rates on fair value as well as reflecting differences between management's and the market's expectations about credit impairments) will provide decision-useful information for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows? If yes, how will the information provided influence your analysis of an entity? If not, why?

This question has been already answered in question 14.

Question 23: The proposed guidance would establish fair value with all changes in fair value recognized in net income as the default classification and measurement category for financial instruments. An entity can choose to measure any financial instrument within the scope of this proposed Update at fair value with all changes in fair value recognized in net income, except for core deposit liabilities which must be valued using a remeasurement approach. Do you believe that a default classification and measurement category should be provided for financial instruments that would otherwise meet the criteria for qualifying changes to be recognized in other comprehensive income? If not, why?

This question has been already answered in question 8.

Question 24: The proposed guidance would provide amortized cost and fair value information on the face of the financial statements. The Board believes that this would increase the likelihood that both measures are available to users of public entity financial statements on a timely basis and that both measures are given equal attention by preparers and auditors. Do you believe that this approach will provide decision-useful information? If yes, how will the information provided be used in the analysis of an entity? If not, would you recommend another approach (for example, supplemental fair value financial statements in the notes to the financial statements or dual financial statements)?

Response to Questions 24 y 35

CECA is not in favour of the proposal to present two different measurement attributes for the same financial instruments on the face of the statement of financial position. For the reasons we already explained above, we does not consider fair value measurement appropriate for debt instruments held for collection or payment of the contractual cash flows. CECA also



believes that the proposal would introduce additional complexity and unnecessary detail on the face of the financial statements. For clarity and relevance reasons fair value information should be presented when appropriate in the notes to the financial statements.

Question 25: For hybrid financial instruments that currently would require bifurcation and separate accounting under Subtopic 815-15, do you agree that recognizing the entire change in fair value in net income results in more decision useful information than requiring the embedded derivative to be bifurcated and accounted for separately from the host contract? If yes, how will the information provided be used in the analysis of an entity? If not, for which types of hybrid financial instruments do you believe that it is more decision useful to account for the embedded derivative separately from the host contract? Why?

Response to Questions 25 and 26

CECA supports a simple, symmetrical and principle-based approach to the bifurcation of embedded derivatives for both, hybrid financial assets and liabilities. Entities should have an option either to bifurcate the embedded derivative or to carry the whole instrument at fair value with changes in profit or loss.

Question 26: IFRS 9 requires hybrid financial assets to be classified in their entirety on the basis of the overall classification approach for financial assets with specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk. Also, for hybrid financial liabilities, the IASB, in order to address the effects of changes in the credit risk of a liability, tentatively has decided to retain existing guidance that requires embedded derivatives to be bifurcated and accounted for separately from a host liability contract if particular conditions are met. Do you believe that the proposed guidance for hybrid financial instruments or the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information? Why?

This question has been already answered in question 25.

Question 27: Do you believe that measuring certain short-term receivables and payables at amortized cost (plus or minus any fair value hedging adjustments) will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Questions for Preparers and Auditors

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?



Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-incost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?

This question has been already answered in question 17.

Presentation

Questions for All Respondents

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

Response to Questions 32, 33, 34 and 36

CECA is of the opinion that fair value changes due to changes in an entity's own credit risk should not be recognised in profit or loss but in other comprehensive income. Although in certain circumstances separating the two components (changes of price of credit and changes in the entity's specific credit spread) could introduce additional complexity and subjectivity as it relies on non-observable inputs.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

This question has been already answered in question 32.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should



some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

This question has been already answered in question 32.

Questions for Users

Question 35: For financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income, do you believe that the presentation of amortized cost, the allowance for credit losses (for financial assets), the amount needed to reconcile amortized cost less the allowance for credit losses to fair value, and fair value on the face of the statement of financial position will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

This question has been already answered in question 24.

Question 36: Do you believe that separately presenting in the performance statement significant changes in the fair value of financial liabilities for changes in an entity's credit standing (excluding the changes in the price of credit) will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why? Do you believe that changes in the price of credit also should be included in this amount? If so, why?

This question has been already answered in question 32.

Credit Impairment

Questions for All Respondents

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

Response to Questions 37, 38, 41, 48, 53, 54 and 55

We expressed our detailed views on the IASB's Exposure Draft, Financial Instruments: Amortised Cost and Impairment issued on 29 June 2010 in CECA's comment letter. Below we summarise our key observations.

- Impairment methodology based on the "expected loss over the life of the portfolio" with symmetrical treatment of initial expectations of future losses and changes in those estimations.
- The usage of internal models to calculate expected losses introduces a lot of subjectivity and thus, a possibility to manipulate the results of the entity. With these



models comparisons among different entities will be difficult and therefore performance of the entities won't be accurately evaluated.

- The current definition of amortised cost and Effective Interest Rate in IAS 39 should not be changed.
- Open portfolio context.

In respect of the proposed impairment model, CECA supports the elimination of the "probability threshold" and the change to a credit impairment model based on estimates of expected cash flows over the life of the financial asset. The proposed model implies an improvement of the current incurred-loss impairment model. However, CECA believes that estimates should reflect all existing information and not only past or current events and economical conditions.

Additionally, the FASB's proposal does not differentiate between initially expected losses and changes in estimates of cash flows and both should be recognised immediately in profit or loss resulting in artificial distribution of revenues. CECA agrees with the IASB that expected losses should be amortized over the life of the portfolio but disagrees with both the FASB and the IASB proposals to recognise the effects of changes in estimates in profit or loss in the period of the re-estimate. Instead is supportive of a model that would recognise those changes over the residual life of the instrument.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

This question has been already answered in question 37.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?



Response to Question 39

We believe that changes in estimates of cash flows due to prepayments, foreign exchange rates and changes in interest rates should be in general excluded from an assessment of credit impairment, as they do not trigger any credit impairment and in consequence should be shown separately.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

This question has been already answered in question 37.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

Response to Question 42.

CECA agrees with the proposed requirement.

Questions for Users

Question 43: The credit impairment model in this proposed Update would remove the probable threshold. Thus, an entity would no longer wait until a credit loss is probable to recognize a credit impairment. An entity would be required to recognize a credit impairment immediately in net income when an entity does not expect to collect all of the contractual cash flows (or, for purchased financial assets, the amount originally expected). This will result in credit impairments being recognized earlier than they are under existing U.S. GAAP. Do you believe that removing the probable threshold so that credit impairments are recognized earlier provides more decision-useful information?

Response to Questions 43, 44 and 46



As we have already explained, CECA supports the elimination of the probable threshold so that impairments are recognised earlier than they are under the existing U.S. GAAP, however, CECA believes that not only past and existing conditions but all the existing information about expected future developments should be included in the assessment of the impairment.

Question 44: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on impairment proposes an expected loss approach and would require an entity to estimate credit losses on the basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would provide more decision-useful information?

This question has been already answered in question 43.

Question 45: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Do you agree with that approach?

CECA agrees with the proposed approach.

Questions for Preparers and Auditors

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods



operational? If not, why?

This question has been already answered in question 43.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

Interest Income recognition

Questions for All Respondents

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

This question has been already answered in question 37.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Response to Question 50

CECA believes that a consistent methodology for interest recognition should apply to all financial instruments regardless of their classification.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?



Questions for Users

Question 52: Do you believe that the method for recognizing interest income on financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Response to Question 52

CECA would support a method for interest income recognition that would separately identify interest revenues from credit impairment losses.

Question 53: The method of recognizing interest income will result in the allowance for credit impairments presented in the statement of financial position not equaling cumulative credit impairments recognized in net income because a portion of the allowance will reflect the excess of the amount of interest contractually due over interest income recognized. Do you believe that this is understandable and will provide decision-useful information? If yes, how will the information provided be used? If not, why?

This question has been already answered in question 37.

Question 54: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Thus, the recognition of a credit loss would result in a decrease in interest income recognized. Similarly, a reversal of a previously recognized credit loss would increase the amount of interest income recognized. The IASB Exposure Draft on Impairment proposes that an entity calculate interest by multiplying the effective rate established at initial recognition by the amortized cost basis. The IASB's definition of amortized cost basis is the present value of expected future cash flows discounted by the effective interest rate established at initial recognition and, therefore, includes credit losses recognized to date. Thus, as initially expected credit losses are allocated over the life of the instrument, the amount of interest income decreases. Both the FASB's and the IASB's models for interest income recognition are similar in that the recognition of an impairment reduces the amount of interest income recognized. However, as noted in the questions above, the timing of credit impairments and the determination of the effective interest rate differ in the two proposed models. Thus, the amount of interest income recognized under the two proposed models will differ. Do you believe that the FASB's model or the IASB's model provides more decision-useful information? Why?

This question has been already answered in question 37.

Question 55: Do you agree that an entity should cease accruing interest on a financial asset measured at fair value with qualifying changes in fair value recognized in other comprehensive income if the entity's expectations about cash flows expected to be collected indicate that the overall yield on the financial asset will be negative? If not, why?



This question has been already answered in question 37.

Hedge Accounting

Questions for All Respondents

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

Response to Question 56

CECA is supportive of a simplification of existing hedge accounting in a way that appropriately reflects how risk is managed by an entity and for the removal of the quantitative assessment of hedge effectiveness and for the adoption of a qualitative analysis to assess effectiveness.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

Questions for Users

Question 59: Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?

Response to Question 59

IASB is working on this subject as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The exposure draft is expected to be issued before the end of this year and CECA will analyze it and make its comments at that moment.

We consider that both Boards, IASB and FASB should work together to develop a standard that meets the objectives of simplification of current hedging accounting as well as convergence.



Question 60: Do you believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about hedging activities? If yes, why and how would you use the information provided? If not, what changes do you disagree with and why?

Response to Question 60

Although CECA believes that the proposed changes to the hedge accounting model would help reduce complexity in applying the hedge accounting requirements, CECA believes that the FASB should incorporate the IASB's final decisions into its final standard in order to improve and make it converge in this area.

Questions for Preparers and Auditors

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

Response to Question 63 and 64

CECA is not in favour of the proposal to prohibit the voluntary dedesignation of a hedge accounting relationship. In addition, CECA considers as nonoperational and cost prohibitive the proposed guidance on effective terminations. Companies commonly add new economic hedge relationships and remove, or dedesignate, existing hedge relationships as changes occur in the risk profile of the hedged risk exposure.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

This question has been already answered in question 63.



Disclosures

Question for All Respondents

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

Questions for Users

Question 66: For purchased financial assets, do you believe that the requirement to disclose the principal balance, the purchaser's assessment of the discount related to credit losses inherent in the financial instrument at acquisition, any additional difference between the amortized cost and the principal balance, and the amortized cost in each period will provide decision-useful information? If yes, how will the information provided influence your analysis of an entity? If not, why?

Question 67: Are there any other disclosures that you believe would provide decision-useful information and why?

Effective Date and Transition

Questions for All Respondents

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Response to Question 68

In respect of the tentative effective date and transition provisions, CECA believes that both Boards should seek convergence as FASB proposal does not permit early application while IASB proposal permits it. Consequently this would reduce the comparability of financial statements prepared under FASB and IASB Standards.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

Questions for Preparers and Auditors

Question 70: How much time do you believe is needed to implement the proposed guidance?

Question 71: Do you believe the proposed transition provision is operational? If not, why?