For the attention of the IASB Board

Contact: Isabelle.FERRAND
☎: 01.45.96.93.29


Dear Sir,

Credit Mutuel Group submits to you its comments about the supplementary document below.

Firstly, we appreciate the opportunity to comment this document and welcome the improvements made to the original ED. We also particularly appreciate the principle-based approach, notably in considering the credit risk management practices.

About the scope of this project, we support a single approach for all financial assets recognised at amortised cost. Therefore, it should be extended to closed portfolios and single assets, as the same operational problems exist for these categories.

This model should be also applied to loan commitments and financial guarantees because they are managed with the credit risk management practices.

Furthermore, we support main characteristics of the model proposed in this supplementary document, which are:

- the maintain of the current notions:
  - the definition of amortized cost,
  - the Effective Interest Rate (EIR) (we welcome the decoupling between interest incomes and expected losses),
  - the incurred losses impairment.

- an expected losses impairment allowance, determinated on a basis of portfolio (open or not), to be consistent with the credit risk management practices, and calculated over the life of the portfolio.

However, as expected loss impairment allowance on the good book are supposed to cover incurred losses, we consider that the transferred amount of allowance should be the whole allowance required in the bad book.
In addition, we are opposite to the floor model for the following reasons:

- the concept of foreseeable future would be interpreted from different ways according to the countries, with a risk of inconsistency in the financial statements.

- this method of floor is conceptually unjustified and doesn’t answer to the objectives of the IASB because the immediate recognition of a loss (day-one-loss) doesn’t respect the principle of a coherent recognition between the credit risk premium and the expected losses. Moreover, this approach implies a deep procyclical effect as it is based on the assumption of estimations over the near term.

- the concept of foreseeable future is based on the assumption that the short term losses are more predictable than those estimated on the life of portfolios, which is very questionable.

- we can consider that, over a certain level of floor, its application will be systematic, which results in a single model of impairment, the FASB approach.

- we consider that a floor already exists for two reasons, even without floor based on foreseeable future: due to the impairment allowance in the good book (on a time-proportional basis) and due to impairment allowance recognized in the bad book portfolio (incurred losses).

- finally, the floor method introduces operational complexity because two types of expected losses should be calculated and systematically compared at each reporting date.

Therefore, we don’t agree with an inconsistent approach just for the convergence between both Boards. On the contrary, we believe that convergence should move to a higher quality standard.

About disclosures, we consider that volume and complexity of disclosures could undermine the clarity and the understanding of financial statements. Therefore, we support a new comprehensive analyse of credit risk disclosures, in taking account notably current IFRS 7 requirements. More precisely, disclosures should only focus on the information presented on the face of financial statements and not on the options available under the proposals. Moreover, requiring detailed movements such as write-offs, reversals or disposals for the good book allowance account makes no sense as this information relates to the bad book.

Furthermore we believe the whole provisions must be redeliberated indeed, because it’s not possible, given the importance and the complexity of topics, to validate partial provisions. Furthermore, we need a new exposure draft at the end of discussions between both Boards, which would be comprehensive and with a period of comments longer than 60 days.

Finally, as we still strongly believe that the financial sector in Europe will need at least three years time for the implementation of IFRS 9, we would ask for an effective date of 1 January 2015. Moreover, we advocate for applying a mechanism similar to the one applied for the transition to IAS 39 for first time adopters in 2005, with a restatement of the opening balance sheet and without comparison period.

You may find in appendix our comments to your nineteen questions.

We hope you find these comments useful and would be pleased to provide any further information you may require.

Best regards,

Isabelle FERRAND
**APPENDIX**

**General**

**Question 1**

*Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?*

We support main characteristics of the model proposed in this supplementary document, which are:

- the maintain of the current notions:
  - the definition of amortized cost,
  - the Effective Interest Rate (EIR) (we welcome the decoupling between interest incomes and expected losses),
  - the incurred losses impairment.

- an expected losses impairment allowance:
  - determined on a basis of portfolio (open or not), to be coherent with the credit risk management practices,
  - calculated over the remaining life of the portfolio,
  - allocated over the estimated life of the portfolio, which permits a consistency with the recognition of the credit risk premium,
  - on basis of discounted data or not.

In opposite, we don’t support the use of a floor for the impairment allowance on the good book portfolio, as required by the FASB in the context of convergence, for the reasons notably developed in our answer to your question 3.

We also consider that short term trade receivables should be exempted from the expected losses approach and directly submitted to incurred losses approach.

**Scope – Open portfolios**

**Question 2**

*Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?*

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

We support a single approach for all financial assets recognised at amortised cost. Therefore, it should be extended to closed portfolios and single assets, as the same operational problems exist for these categories.
This model of impairment should be also applied to loan commitments that are not accounted for at fair value through profit or loss and financial guarantees (see our answer to your questions 15Z and 16Z).

**Differentiation of credit loss recognition**

**Question 3**

Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?

We consider that the approach proposed for the good book doesn't meet the objectives of an expected losses model because of the concept of the floor.

Our arguments against this floor are the following:

- the concept of foreseeable future would be interpreted from different ways according to the countries, with a risk of inconsistency in the financial statements,

- this method of floor is conceptually unjustified and doesn't answer to the objectives of the IASB because the immediate recognition of a loss (day-one-loss) doesn't respect the principle of a coherent recognition between the credit risk premium and the expected losses,

- the concept of foreseeable future is based on the assumption that the short term losses are more predictable than those on the life of portfolios. This assumption is only true for a very short period. For the other cases, this conclusion is very questionable because short forecasts (2-3 years) are submitted to the economic context (and to the position in the economic cycle). In the opposite, long term forecasts are based on statistics data more steady. The consequence could be an increase of the pro cyclicality,

- in addition, the floor method introduces operational complexity because two types of expected losses should be calculated and systematically compared at each reporting date.

We can consider that, over a certain level of floor, its application will be systematic, which results in a single model of impairment, the FASB approach.

Moreover, we consider that a floor already exists for two reasons: due to the impairment allowance in the good book on a time-proportional basis and due to impairment allowance recognized in the bad book portfolio (incurred losses).

**Question 4**

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

This approach is operational because it is based on the decoupling method, which distinguishes the Effective Interest Rate calculus (EIR) from the expected losses.
Nevertheless, the approach is too complex to implement if it requires to develop two methods: time proportional basis method and floor amount.

**Question 5**  
*Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?*

We consider that the time proportional basis method would provide useful information because it is consistent with the recognition of the credit risk premium on the life of loans. But the existence of a floor results in a useless information, notably because allowance amounts would be very difficult to explain to users of financial statements and would disrupt their analyses.

**Question 6**  
*Is the requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?*

We consider that the distinction between good book and bad book portfolios is clear. We welcome the principle based on the bank credit risk management.

**Question 7**  
*Is the requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?*

In accordance with our answer to your question 6 above, the distinction between good book and bad book is clear and auditable because it is based on credit risk management practices.

**Question 8**  
*Do you agree with the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?*

We agree with this principle to distinguish between two groups of loans (good book and bad book) in reason of the coherence with credit risk management practices. We support that the allowance impairment on the bad book loans will remain calculated in accordance with IAS 39.

**Minimum impairment allowance amount**

**Question 9**  
*The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:*

(a) *Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?*

We are opposed to the principle of the floor method. Please refer to the question 3.
(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?

In this case, the concept of “early loss pattern” isn’t clear and has no sense for a steady open portfolio.

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

We don’t agree with your proposition of a minimum level of impairment allowance in the good book (floor method), for the reasons developed in our answer to the question 3.

Moreover, we consider that a minimum level of allowance impairment is also recognized:
- in the bad book portfolio for the amount of incurred losses,
- in the good book for the time-proportional basis allowance.

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

We consider, contrary to §B14 of the supplementary document, that the foreseeable future cannot be a constant period. It varies in function of economics conditions and geographic areas (shorter in difficult period and longer in good period).

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

It depends on the economic context, the portfolios and the geographic areas. Moreover, as mentioned in question 3, short forecasts are submitted to the economic context (and to the position in the economic cycle) whereas, in the opposite, long term forecasts are based on statistics data more steady.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognised under the ‘floor’ requirement (for example, no more than three years after an entity’s reporting date)? If so, please provide data and/or reasons to support your response.

As explained previously, we don’t agree with the method of the floor.

**Question 10**

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.
Above a certain horizon of time, depending on portfolios, the impairment allowance calculated with the floor method will be systematically higher than amounts calculated in accordance with the time-proportional basis method. This floor model would become the single method, corresponding to FASB model.

**Flexibility related to using discounted amounts**

**Question 11**

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?

We agree with the flexibility allowed by this provision. Nevertheless this discounting estimate is very difficult or impossible to implement considering the difficulty to accurately determinate the timing of future losses.

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

Please refer to question 11a.

**Approaches developed by the IASB and FASB separately**

**Question 12**

Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (i.e. to recognise expected credit losses over the life of the assets)? Why or why not?

We support the specific IASB approach for two main reasons:

- we consider that this approach meets the main characteristics of expected losses impairment allowance method (see our answer to your question 1)
- we are opposite to the floor method (see our answer to your question 3)

However, there is also the question of how using impairment allowance. Indeed, even if the proposed model involves a transfer of impairment allowance between the good book and the bad book, the consequence is the immediate reconstitution of an impairment allowance in the good book.

**Question 13**

Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (i.e. to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

As explained previously (notably in our answer to your question 3), we are opposite to the floor approach proposed by the FASB.
**IASB only Appendix Z Presentation and disclosure**

**Impairment of financial assets**

**Question 14Z**
Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

We support this provision for operational reasons and we are favourable to extend it to closed portfolios and single assets.

**Scope – Loan commitments and financial guarantee contracts**

**Question 15Z**
Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

We consider that loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) should be in the scope of this supplementary document. Indeed they are managed in the same manner as loans, in accordance with banks’ credit risk management practices.

**Question 16Z**
Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

Please refer to question 15Z. We consider that the same provisions should be applied to the extent they are managed in accordance with banks’ credit risk management practices. There is no difference of risk management between assets and loan commitments or financial guarantee contracts.

**Presentation**

**Question 17Z**
Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

We support the proposed presentation (separate presentation between interest incomes and expected loss impairment allowance). It is consistent with the decoupling approach which we advocated in our comments to the first exposure draft proposed in November 2009.
Disclosure

**Question 18Z**

(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

We consider that volume and complexity of disclosures could undermine the clarity and the understanding of financial statements. Therefore, we support a new comprehensive analysis of credit risk disclosures, in taking account notably current IFRS 7 requirements.

More precisely, disclosures should only focus on the information presented on the face of financial statements and not on the options available under the proposals (notably information detailed in §7b about differences between the time-proportional amount and the floor amount should not be required).

Moreover, requiring detailed movements such as write-offs, reversals or disposals for the good book allowance account (paragraphs Z7 – BZ22) makes no sense as this information relates to the bad book.

**Question 19Z**

Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

Expected loss impairment allowance on the good book is supposed to cover incurred losses. Consequently it is conceptually logical to use this allowance when an asset is transferred to the bad book. But we consider that the transferred amount of allowance should be the whole allowance required in the bad book.