

ANSWER SUPPLEMENT TO ED/2009/12

January 2011

CECA's answer to IASB Supplement to the Exposure Draft on

Financial Instruments: Amortised Cost and Impairment

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 IASB SUPPLEMENT TO ED/2009/12 FINANCIAL INSTRUMENTS: AMORTISED COST AND IMPAIRMENT

We welcome the IASB's effort to solve the operational difficulties identified in the proposed model in November 2009. In this respect, we generally agree with the simplified approach based on:

- separate treatment for the "good book" and the "bad book"
- decoupling allocation of interest revenues and expected credit losses

Nevertheless we think the proposed model might increase the volatility and subjectivity of the impairment allowance.

Responses to detailed questions:

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?

Answer to question 1

We believe the impairment model described in the supplementary document will achieve an earlier recognition of expected credit losses as it proposes to replace the current incurred loss impairment model with an expected credit loss impairment model.

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 single impairment approach for all relevant financial assets.

Answer to question 2

We think the proposed model would be operational for closed portfolios and single assets as the main operational difficulties are those associated to open portfolios. Additionally we consider that the impairment model should be uniform for all financial assets.



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?

Answer to question 3, 4 and 5

As stated in the introduction we agree with the proposed approach and the distinction between the calculation of the effective interest rate and the recognition of expected credit losses.

Question 4

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

See answer to question 3.

Question 5

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

See answer to question 3.

Question 6

Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Answer to question 6

We think that the requirement to differentiate between the "good book" and the "bad book" is clearly described and consistent with credit management practices.

Question 7

Is the requirement to differentiate between the two groups (ie '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?

Answer to question 7.

We think that the referred requirement is operational although we consider it should be taken into account the diversity in credit management practices when including a financial asset in the bad book especially to achieve comparability between entities.



Question 8

Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Answer to question 8.

We agree with the requirement to differenciate between the two groups as we consider it will provide useful information for users of financial statements.

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

Answer to question 9 and 10

As a whole we agree with the introduction of a floor as it improves the model proposed in November 2009. This floor should be based in the credit characteristics of each portfolio and



calculated in the period for which projections are possible and credit losses reasonably estimated. We also consider that the referred floor would vary depending on the economic conditions. However we consider that the foreseeable future period should be cap at twelve months in order to make it consistent with BIS II.

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.

See answer to question 9.

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?
- (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?

We agree with the referred flexibility as it will reduce the complexity in implementing the proposed approach.

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 (ie to recognise expected credit losses over the life of the assets)? Why or why not?

Answer to question 12.

We support the general concept of the IASB approach as it will deal with the weakness of the current impairment model (ie delayed recognition of expected credit losses). In addition we welcome the proposed simplified model which implies the decoupling of the calculation of the effective interest rate and the recognition of expected credit losses as it will ensure an operational method.



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 (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

Answer to question 13.

We would not prefer the FASB approach as it does not distinguish between assets according to the entity's internal credit risk management.

APPENDIX Z: PRESENTATION AND DISCLOSURE

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?

Answer to question 14Z.

As stated previously we agree with the referred differentiation.

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?

Answer to questions 15Z and 16Z.

We agree with the application of a single standard in relation to impairment as both loans and loans commitments are frequently managed using the same business model irrespective of whether they are under the scope of IAS 39, IFRS 9 or IAS 7. Nevertheless, we suggest that when estimating the expected credit loss it should be taken into account the different credit characteristics of loans and loans commitments.



Question 16Z

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

See answer to question 15Z.

Question 17Z

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

Answer to question 17Z.

We agree with the proposed presentation requirements as they will increase the quality of the information.

Ouestion 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?

Answer to question 18Z.

We agree with the proposed disclosure requirements although we would note the operational difficulties they will imply especially when requiring a longer time period than usual (one or two years).

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?

Answer to question 19Z.

We agree with the proposal to consider the weighted average age and the weighted average life of the transferred financial asset(s) when calculating the impairment allowances as it may not be equal to the weighted average age and weighted average life of the portfolio.