Sir David Tweedie Chairman IASB – International Accounting Standards Board IFRS – International Financial Reporting Standard 30 Cannon Street London EC4M 6XH

Great Britain

Mainzer Landstrasse 47a DE – 60329 Frankfurt am Main

Contact: Claudia Stinnes
Direct number: +49 69 26 4848 300
Fax number: +49 69 26 4848 335
Email: Claudia.Stinnes@effas.com
Internet: www.effas.com

1 April 2011

Supplement to Exposure Draft ED/2009/12 Supplement Financial Instruments: Impairment

Comments by the European Federation of Financial Analysts Societies (EFFAS) Financial Accounting Commission - FAC

Dear Madam, dear Sir,

The European Federation of Financial Analysts Societies is the European umbrella organization of national analysts' societies. It comprises 26 members, representing more than 14,000 investment professionals in the areas of equity and bond research, asset management as well as investment advice. The European Federation of Financial Analysts' Societies through its Commission on Financial Accounting has reviewed the Supplement to Exposure Draft ED/2009/12, *Financial Instruments: Impairment*.

The Commission supports IASB's efforts on the close alignment of the accounting with an entity's risk management activities and improving the ability of investors (and other users, i.e., analysts) to understand the entity's risk position and to assess the amounts, timing and uncertainty of future cash flows represented in its financial statements. We believe that this move is of utmost importance to enable users of financial information to understand the company's risk position and credit quality of its financial assets as well as its risk appetite.

We apologize for the delayed submission due to an unexpected drawback in the drafting process. EFFAS FAC discussed your proposals both during a meeting as well as through conference calls. We are pleased to provide some comments to your questions as follows:

Question 1

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

We agree with your proposal. According to the new approach, credit losses for every portfolio are recognized from the beginning; therefore it cannot be argued that LLP's are delayed as this was the case under the current IAS 39.

In comparison with the previous proposal, the new proposal results in less loan loss provision for the 'Good Book' as changes in expected losses are spread over lifetime and not recognised immediately (except for those expected in the foreseeable future). For financial assets assigned to the 'Bad Book' the entire amount of expected credit losses have to be recognised at once, again a good indicator for their true credit quality.

EFFAS FAC is of the opinion that the current proposal is an improvement from the previous exposure draft. However we would prefer a determination of the foreseeable future in order to allow comparison between entities and among its peers.

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.

EFFAS FAC supports a consistent impairment model for all financial assets carried at amortised cost. We are very much of the opinion that the accounting treatment and assessment of credit quality should be the same for all portfolios.

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?

Yes, we agree with the proposal. We believe that a portfolio approach is helpful to allow issuers to concentrate on the portfolio management of credit quality while learning about management's view on the credit quality of the issuer's financial assets.

Question 4

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

As analysts we do not have a strong view on this topic.

Question 5

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

We believe that appropriate disclosure about the movements between the 'Good Book' and the 'Bad Book' is essential. Minimum disclosure would be (to be given for both directions individually) the notional amounts, the carrying amount as at beginning of the reporting period, the impairment made or released and the carrying amount at the reporting date. Preferably the disclosure should include a comprehensive movement schedule in order to allow users of the financial statements understand the development of the credit quality of the issuer's financial assets.

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?

Yes.

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?

As analysts we do not have a strong view on this topic.

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?

Regarding appropriate disclosure kindly refer to our answer on your question five.

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.

From our perspective the proposed floor is essential to minimise the management of results and to secure a continuous application of the risk framework established by the issuer.

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.

As analysts we are currently missing information on this topic.

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?

EFFAS FAC does not agree to options in general. Options reduce the value of information provided and make comparability burdensome and less informative or even difficult to be made. If the IASB decides to permit both approaches we would welcome disclosure about the effect of the chosen method compared to the outcome would the option chosen have not been available at all.

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?

EFFAS FAC does not have a strong view on this topic.

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?

EFFAS FAC does not have a strong view on this topic.

The commission is willing to provide additional comments, as necessary.

Yours faithfully,
Javier de Frutos
Chair, Commission on
Financial Accounting

EFFAS Financial Accounting Commission

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 26 member organisations representing more than 14,000 investment professionals. The Commission on Financial Accounting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint.

FAC members are Javier de Frutos (Chairman, Spain), I Jacques de Greling (Vice-Chairman, SFAF France), Friedrich Spandl (OVFA, Austria), Henning Strom (NFF, Norway), Ivano Mattei (AIAF, Italy), Taras Koval (USFA, Ukraine), Jérôme Vial (SFAA, Switzerland) and Rolf Rundfelt (SFF, Sweden).
