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Chère Mme Flores

**ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9***

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the International Accounting Standards Board Exposure Draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9*. Our responses to the main issues highlighted by EFRAG are set out below. A draft of our response to the IASB, which has not yet been finalised, is attached to this letter. Please refer to this draft for our detailed views on the IASB's proposals.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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**ICAEW REPRESENTATION****EFRAG'S DRAFT COMMENT LETTER ON ED/2012/4 CLASSIFICATION AND MEASUREMENT: LIMITED AMENDMENTS TO IFRS 9**

**Memorandum of comment submitted in March 2013 by ICAEW, in response to EFRAG's draft comment letter on IASB's exposure draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* published in December 2012.**

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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB's Exposure Draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9*.

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

## MAJOR POINTS

### A radical rethink is necessary

5. We are supportive of the IASB's attempts to put the business model at the heart of IFRS 9. However, an entity's business model is more than a mere accounting construct. It is, put simply, how a business creates, delivers and captures value. Standard-setters should not, therefore, seek to put parameters on what an entity's business model can or cannot be. Unfortunately, this is exactly what the IASB appears to be doing.
6. In our draft representation letter we therefore urge the IASB to radically rethink their current proposals. We would prefer the Board to explore ways in which it could develop a purer business model driven reporting approach. We make some suggestions as to how this could be achieved in our draft representation letter.

### We share some of EFRAG's concerns

7. Like EFRAG, we are concerned that the proposed clarifications appear to unduly restrict the scope of amortised cost category. While we agree that some notion of materiality may need to be explicitly included in the solely payments of principle and interest test, we are concerned that the test in the exposure draft will be interpreted in an overly restrictive manner and will not result in all financial assets which are in a reasonable 'hold to collect' business model being classified appropriately. We believe that in such cases amortised cost measurement will often provide more useful information than measured at fair value.
8. We also share EFRAG's concerns about the definition of interest and agree that further consideration should be given to what is meant by 'interest' in terms of time value of money and credit risk.

## RESPONSES TO SPECIFIC QUESTIONS RAISED BY EFRAG

### EFRAG Question 1

Are you aware of any other financial assets that would not pass the contractual cash flow characteristics assessment and for which, in your view, measurement other than at FV-PL

**would provide more useful information? If so, please describe the financial assets and why you believe that measurement at other than FV-PL provides more useful information.**

9. Examples of these situations include constant maturity rate loans in China and loans to government organisations supported by Livret A deposits in France. There are doubtless other instruments where there is no obvious modification or benchmark because the instrument's terms are those that are either the only terms available in that market or are the only terms available for that particular type of instrument.
10. In these circumstances, it would only be possible to try to compare the actual instrument to a hypothetical instrument which does not exist and may not even be legally possible in the relevant jurisdiction. We neither believe that such a comparison is a valid basis on which to classify the instrument nor one which will result in consistent application in practice and across jurisdictions.

#### **EFRAG Question 2**

**Do you believe that the proposed clarification in the contractual cash flow characteristics assessment would decrease the number of financial assets to be measured at FV-PL in their entirety so that the request for reintroducing bifurcation in IFRS 9 is no longer justified? Please explain why.**

11. We do not believe that bifurcation is necessary in the context of a pure business model driven reporting approach. Therefore, we do not support its reintroduction unless the IASB abandons the notion of business models, in which case it may prove more cost effective to use the existing embedded derivative rules than to completely rewrite IAS 39.

#### **EFRAG Question 3**

**Are you aware of any circumstances in which, from your point of view, bifurcation might still be needed? If so, please provide a description of the financial assets concerned.**

12. No.

#### **EFRAG Question 4**

**Do you believe that EFRAG should still urge the IASB to reintroduce bifurcation for financial assets on the basis of a 'principal-and-interest' approach having in mind that finalising the appropriate requirements might delay the completion of IFRS 9, however not require re-exposure?**

13. No.

#### **EFRAG Question 5**

**Do you support View 1 or View 2 above? Please explain why.**

14. Neither. We would prefer the Board to explore ways in which it could develop a purer business model driven reporting approach.

#### **EFRAG Question 6**

**The basis for conclusions in the ED (paragraph BC30) indicate that interested parties have raised concerns that the introduction of the FV-OCI measurement category would increase the use of fair value relative to IFRS 9 (2010) and that the IASB did not seek however to increase or reduce the use of fair value measurement. In addition, the IASB notes that in some cases financial assets that would have been measured at FV-PL could be measured at FV-OCI as a result of the proposals.**

**Do you believe that the introduction of the FV-OCI measurement category would increase the use of fair value relative to IFRS 9 (2010)? Please explain why.**

- 15.** The IASB has stated that the clarifications to the 'hold to collect' business model are not intended to narrow the scope of this category when compared to that in the original standard. However, by putting a much more direct emphasis on the volume of sales – rather than on the reasons for those sales and how they fit within an entity's business model – it appears that the clarifications do just that. Consequently, we believe that this will result in more assets being measured at fair value relative to IFRS 9 (2010).
- 16.** However, where the main purpose of a portfolio and its underlying business model is to 'hold to collect', and sales are incidental to the business model, we do not agree that this should fall into the FVOCI category merely as a result of concerns about the actual or potential frequency of such sales.

#### **EFRAG Question 7**

**Are there any additional arguments that have not been identified above?**

- 17.** Please refer to our draft representation letter.

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