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Re: ***Draft comment letter on FASB Exposure Draft Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities***

Dear Sir/Madam,

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG comment letter on the FASB Exposure Draft *"Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" ('the ED').*
OIC has decided not to respond directly to the FASB, but supports the EFRAG decision to reiterate its position on the accounting for financial instruments. It is acknowledged that the main EFRAG concerns on the FASB ED are consistent with the positions taken by EFRAG in previous responses to the IASB consultations.
Having stated our overall agreement with EFRAG, we would like to emphasize some aspects of the FASB model which in our view do not represent an improvement of IFRS 9 in the event that the IASB might take them into consideration.

CLASSIFICATION AND MEASUREMENT MODEL AND CONVERGENCE

The FASB model moves away from a mixed measurement model that allows for financial instruments to be reported at either amortised cost or fair value, depending on the business model (as proposed by the IFRS 9). We understand that this measurement model, at least in Italy, is supported by the majority of the stakeholders.

We are not convinced that a full fair value model (in essence an exit value model) can give a faithful representation of the financial position of entities, especially for those many banks that adopt an «originate and hold» business model.

PRESENTATION

We do not see any improvement by reporting at the same time both amortised cost and fair value information on the face of the statement of financial position. Instead this double measurement, with the same prominent display, is in our view a source of confusion.
We understand that the two Boards are debating the issue of presentation in the FSP convergence project. It seems more logical to discuss such matters in that project, in order to apply consistent requirements to all the lines of the Statements of Financial Position and Comprehensive Income.

MEASUREMENT OF FINANCIAL LIABILITIES

As already mentioned, we support a mixed measurement approach, based on the business model and the characteristics of the financial instruments.
We agree with EFRAG view that financial liabilities, except for derivatives and financial liabilities held-for-trading, should be subsequently measured at amortised cost because this measurement better reflects the nature and use of those liabilities.

The FASB is proposing an additional measurement model for financial liabilities (core deposits). We disagree with this proposal. In our opinion this model is too complex, it is based on non observable inputs and it is not representative of the actual benefit attributable to the lower cost of funding provided by a core deposit base. It increases subjectivity of the measurement of items in financial reporting, introducing accounting for internally generated intangible assets, not recognized by accounting standards.

With regard to the possibility to measure financial liabilities at fair value, other than derivatives and those held for trading, as already mentioned in our comment letter on the IASB ED FVO for Financial Liabilities, we strongly believe that fair value changes due to changes in an entity's own credit risk should not impact profit or loss. Nevertheless, we cannot find a strong rationale for recognizing elsewhere in the Statement of Financial Position such changes in own credit risk. We understand that FASB is proposing, as well as IASB, to recognize such changes in OCI. In the absence of a principle that explains the rationale of OCI, and establishes the differences with the profit or loss, we do not agree with the proposed accounting model.

IMPAIRMENT

We believe that the two impairment models are not totally comparable due to the different measurement criteria proposed by the Boards.
Even if we have some concerns about the IASB impairment model (see our comment letter on the EFRAG draft comment letter on IASB ED Financial Instruments: Amortised Cost and Impairment), we support the development of an impairment model based on the expected losses rather than incurred losses. We understand that the model proposed by the FASB is more consistent with a logic of full fair value presentation, but it does not seem to address the concerns raised by many interested parties that required IASB to move towards an impairment model based on expected losses.

OTHER ISSUES

In relation to the FASB proposal to measure the associates at fair value in specific circumstances, we agree that the debate on accounting for financial instruments should not encompass changes to the accounting for investments in associates. We suggest EFRAG to recommend to the Boards to deal with this issue in other “convergence” projects, such as consolidation, more suitable for a review of the accounting methods applicable to the investments in associates.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

Angelo Casò
(OIC Chairman)