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Comment Letters
EFRAG's Draft Comment Letter on IASB ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9
European Financial Reporting Advisory Group

Dear Sir/Madam,

In the present letter ICAC gives its view on EFRAG's draft comment letter on IASB ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9

The exposure draft introduces changes in the IFRS that arises three main issues to be discussed:

Firstly, we agree with the clarifications IASB introduces in the application guidance to clarify if contractual cash flows on a financial asset include only payments related to principal and interest.

However, we also agree with EFRAG's comment letter, paragraph 48, as we also see some disconnection between the two characteristics to classify a financial asset.

In this sense, the need to examine the business model in general terms instead of financial instrument by financial instrument, as the ED says, seems to be contrary to the proposed analysis of contractual cash flows. The ED provides a guidance to analyse instrument by instrument, even with a hypothetical benchmark instrument, in order to calculate if the differences between these instruments are significant or not. We think that it is not clear enough and therefore we do not see that the proposed amendment could solve the question of bifurcation as it is asked in paragraph 42.

This is why we believe that EFRAG should still urge the IASB to reintroduce the bifurcation for financial assets on the basis of a principal-and-interest approach as described in the comment letter.

Bifurcation of hybrid financial assets is the second issue we would like to comment on and our view is the same that we expressed in the past. Many hybrid instruments are not negotiated in an active market, so there is not an easily available measure for them; therefore the entity must calculate internally that measurement. Despite not being required to present those components separately, it is most of the times necessary to separate the implicit derivative and the host in order to measure the hybrid instrument. In conclusion, a decrease in cost of implementing information or a simplification is not

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a fact achieved for preparers because generally, separation of the hybrid contract will anyway be done in practice.

No bifurcation of hybrid contracts may lay to an extension of the fair value measurement for financial asset because we do not believe that the amendments proposed to clarify the contractual cash flow characteristics assessment, could allow to use the amortised cost in practice in the cases in which the fair value-profit and loss should be applied before the proposed changes.

Even in the cases in which the new assessment did not allow to apply the amortised cost, the fair value-profit and loss measurement of the hybrid as a whole, may cause some market distortions, because depending on their accounting treatment, entities could acquire hybrid instruments or separate financial instruments. If the accounting standard does not require separating components, two substantially similar transactions (acquire a hybrid or acquire its components separately) from an economic point of view, they would be accounted for differently.

Thirdly, we do not support the third category of financial assets that the IASB proposes. We think that all the cases of sales that the ED refers to are cases in which it is possible to accept a business model to collect because this model permits these sales with economic criterion in response to hypothetic situations. These cases are not sufficient to build another financial asset category. We are closer to the second view described in the EFRAG's comment letter that is to use this category as an option to avoid accounting mismatches but only those arising for insurance companies.

Finally, we agree with EGRAG's comments about the earlier application of the IFRS 9.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Ana Martínez-Pina
Chairman of ICAC

Madrid, 20th March 2013

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