

## INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to [commentletters@efrag.org](mailto:commentletters@efrag.org) by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

**EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.**

### Your details

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Swedish Enterprise Accounting Group (SEAG)

- (b) Are you a:

Preparer  User  Other (please specify)

- (c) Please provide a short description of your activity:

The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

- (d) Country where you are located:

Sweden, with global activities (see previous point)

- (e) Contact details including e-mail address:

Sofia Bildstein-Hagberg [sofia.bildstein-hagberg@svensktnaringsliv.se](mailto:sofia.bildstein-hagberg@svensktnaringsliv.se)

**EFRAG’s initial assessment with respect to the technical criteria for endorsement**

- 2 EFRAG’s initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG’s reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- 3 EFRAG’s initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG’s reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

- (c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its

technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

**The European public good**

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

*IFRS 9 compared to IAS 39*

5 EFRAG’s initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

Yes       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*The lack of convergence with US GAAP*

6 EFRAG’s initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We do not take a stand in this matter.

- (b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*Impact on investor and issuer behaviour*

- 7 EFRAG’s analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

- (a) Do you agree with this assessment?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*Inter-relationship of IFRS 9 with the future insurance contracts standard*

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We have sympathy for the difficulties the Insurance industry will face if implementing IFRS 9 and IFRS 4 in different periods.  
At the same time we acknowledge the challenge in scope that the proposed deferral would bring to the IASB and we are not fully convinced that temporarily scoping out certain businesses is the best solution. We have split views in our group.

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*European carve-out*

- 10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

- (a) Do you agree with this assessment?

Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

We do not take a stand in this matter.

- (b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

*Costs and benefits of IFRS 9*

- 11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.
- 12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG’s initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

Yes  No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG’s initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

Yes  No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice.

13 EFRAG’s initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

Yes  No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice.

*Overall assessment with respect to the European public good*

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

Yes  No

If you do not agree, please explain your reasons.

**Other issues for consideration**

*Request to provide quantitative data on a confidential basis*

- 15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG’s [field-work policy](#) which is available on the EFRAG website.

*Should endorsement be halted until quantitative data are available?*

- 16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

- Yes                       No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

*Should early application of IFRS 9 be prohibited?*

- 17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

- Yes                       No



*IFRS 9 – Invitation to Comment on EFRAG’s Assessments*

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.