Roger Marshall,
Efrag Board President
35 Square de Meeûs – 1000 Brussels (fifth floor) – Belgium

Dear Sir,

We appreciate the opportunity to comment on the draft of EFRAG's assessments on IFRS 9. Referring to various issues of the EFRAG letter, our association considers that:

- The definition of a third business model as presented in IFRS 9 (hold to collect and sell financial instruments) is not so clear and creates the possibility to consider similar assets managed in a similar way different from the accounting point of view and this may alter the relevance and comparability principles. We agree with the analysis of EFRAG staff according to which it is not possible to define a precise line of separation but referring to the reasons, the frequency, the time and the amounts of sales may create an important use of judgment. A good level of disclosure of management motivation behind choices may help the users of financial statements to understand the business model;

- Although some important decisions about the general conceptual framework are now under discussion, the nature and the absence of a conceptual framework defined by IASB for the OCI create an additional concern about the practical use of the FVTOCI model. We completely agree with the necessity to create a third model (different from the FVTPL and the amortized cost) that permits companies to give a true and fair view of their long term business; It is hard to find a comprehensive definition for the OCI results and for their utility for stakeholders in financial statement analysis. The OCI indeed mixes different kinds of revenues and expenses, some of which are unrealized, while others depend on the coherence of different linked operations,…. Therefore the possibility to adopt the OCI in the third model is extremely relevant and crucial in the evaluation of relevance, reliability and comparability principles;

- The model designed by IASB for the equity evaluation (FVTPL as standard rule and FVTOCI as particular case) may have some impacts on the management of assets and on the investment strategies of a company. If you buy an equity to collect and sell, or to maintain for a long period, the evaluation of this asset at fair value adds market volatility to your economic account that is not part of your business model. At the same time, if you use the FVTOCI model, the impossibility of recycling the profits and the losses written in OCI, while the assets are in your portfolio, may determine that you prefer to buy other assets (for example government or corporate bonds) to benefit from this recycling;

- The new impairment test for financial instruments evaluated at amortized cost and at FVTOCI is considered positive by our association because it should permit better representation of credit risk at the end of every financial period. We agree that some aspects still need to be defined in a better way, for example the use of practical expedients, which may alter comparability if they are not accompanied by appropriate disclosure;

- The rules for hedge accounting defined in IFRS 9, without modifying the general structure of current hedging accounting, improve the reliability of financial statements, creating a stronger link between accounting procedures and risk management strategies. This permits a better representation of hedging operations and better understanding for stakeholders. However an important problem, affecting comparability, remains: the concern regarding the non-compulsory application of hedge accounting principles. According to IFRS 9, even if all the requirements for the application of hedge accounting are met, it is possible for a company not to apply hedge accounting principles and show financial statements in which the coverage is not clearly identified. This aspect gives managers an important choice: they are able to decide whether or not coverage will be presented in financial statements. Therefore it would be possible for the same hedging instruments to be presented as hedging instruments in some cases and as speculative instruments in others although the coverage operation is the same. In some countries this "arbitrage" may also create a possible problem with tax authorities because of the different impact on the profit and loss account;

- Another issue is the possible growth of volatility of the annual results due to the movements of financial instruments from available for sales category to FVTPL. We agree that only economic and not artificial volatility should be represented in financial statements to avoid misleading the market about the company situation.

It is very difficult to evaluate the impact of the application of IFRS 9 for the insurance sector before the issue and application of IFRS 4 new release without having some impact data. At the same time, the important thing is to avoid the application of IFRS 9 before IFRS 4 causing an unclear representation of insurance contracts with the creation of some accounting mismatches that are not representative of the business. Even if it is important to maintain a comparison between sectors, the solution of the two "first applications of IFRS 9" proposed by IASB has important negative effects on the historical series, which has been interrupted twice. This solution also determines a negative impact for analysts, who will have a lot of movements of financial instruments in a relatively short period.
Rome, 30 June 2015

Best regards
SIDREA Board President
Prof. Luciano Marchi