CRÉDIT AGRICOLE S.A.

Montrouge, July 2, 2015

Mr. Roger Marshall
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Email: commentletters@efrag.org

Re: Invitation to comment on EFRAG's assessments on IFRS 9 Financial Instruments.

Dear Mr Marshall,

As one of the largest banks in Europe, Crédit Agricole Group (CA Group, comprising the Regional Banks and Crédit Agricole S.A. Group) is the leading financial partner of the French economy through a customer-centric universal banking model. Being the no. 1 retail bank in Europe, the Group is also the leading European asset manager and bancassurer in banking industry.

We welcome the opportunity to make comments on the EFRAG's draft endorsement advice on IFRS 9 Financial Instruments which is highly sensitive for CA Group considering primarily banking activities and also insurance activities.

We acknowledge the extensive work provided by the EFRAG Technical Expert Group in order to address the main issues about classification and measurement, impairment and hedging, as well as to perform a tentative quantitative assessment.

Regarding the qualitative criteria for endorsement, we would like to point out three of them that are still critical in our view:

- Prudence
- Relevance
- Understandability

Increase in fair value measurement is not prudent in essence:

First of all, we are not convinced that fair value measurement leads to "prudent accounting" (cf. Appendix 2. §.191) since fair value according to IFRS 13 requirements does not conceptually rely on prudence.

Considering prudence as defined as "caution in conditions of uncertainty" (cf. Appendix 2. §. 185), we do not think that fair value measurement is prudent especially when markets become inactive with changes induced in the business model. We keep in mind the financial crisis when the fair value measurement of financial instruments contradicted drastically expected future cashflows because markets were no longer active and transactions were not orderly.

To that extent, the very restrictive approach for reclassification of financial assets is not prudent in our opinion, especially when it precludes any reclassification outside the trading category either in case of "a temporary disappearance of a particular market or even in circumstances of significant change in market conditions" (cf. IFRS 9. §. B4.3.3.). Clarifications should be made to define how market conditions may induce changes in the business model with possible reclassifications of financial assets.

Relevance is questionable when fair value measurement through profit or loss may result from a classification by default:

More generally, any accounting treatment that would not reflect appropriately the business model is questionable and should be avoided, especially if it generates more volatility in profit or loss.

For instance, we find the SPPI test inadequate for the purpose of classification of interests retained in mutual funds (in France, OPCVM investments according to the definition of the Monetary and Financial Code), since it leads to classify "puttable instruments" at fair value through profit or loss, ignoring the business model based on a medium to long-term strategy horizon.

Similarly, we believe that the IASB should have maintained a classification measurement at fair value through other comprehensive income for equity instruments that are not held for trading, including recycling of gains or losses through profit or loss upon derecognition. Obviously, recycling gains or losses through profit or loss, including impairment losses, would enhance performance reporting and would be surely more relevant.

Therefore, we recommend that EFRAG encourages the IASB to address these issues through the IFRS 9 post-implementation review.

Understandability should be analysed taking into account inter-relationship between IFRS 9 and the future insurance contracts standard (IFRS 4 phase II):

As far as insurance entities are concerned, it would undoubtedly be less understandable for users to disconnect the application of IFRS 9 and IFRS 4 (phase II). Actually, it would not give a faithful representation of performance reporting for insurance business as a whole. The main reason is that it would generate accounting mismatches in the profit or loss statement due to the cost model currently used on the liability side for the purpose of insurance contracts recognition. Furthermore, it would lead to temporary or even sustainable financial imbalances in Assets & Liabilities management that would be highly damageable.

Therefore, we fully support the EFRAG's proposal for an optional deferred application of IFRS 9 for insurance entities, awaiting for the future insurance contracts standard to be adopted by the European Union (cf. Appendix 3. §. 103). Actually, insurance entities including insurance companies that belong to financial conglomerates should have the possibility to apply IFRS 9 and IFRS 4 (phase II) at the same date, provided that appropriate disclosures are performed in the meantime to identify separately financial instruments that are still in the scope of IAS 39.

Should the IASB refuse to amend the IFRS 9 transition provisions, we urge the European Commission to find a solution at the European regulation level. As a last resort, in the case of a mandatory application of IFRS 9 without deferral for insurance entities, they should have the possibility to revisit the classification & measurement of financial assets when the future IFRS 4 applies.

Regarding quantitative assessment of IFRS 9 impacts, we are fully convinced that it should be performed in order to make sure that both financial stability and economic development of the Union would be preserved. However, we acknowledge that it would be premature for CA group to provide at this point a comprehensive view of IFRS 9 quantitative impacts. Actually, the phase 1 of our four-stage IFRS 9 project is currently in progress and is expected to be completed by the end of July. It will result in a general diagnosis of IFRS 9 preliminary impacts at the CA Group level. It will also provide an action plan for the IFRS 9 implementation at each business line level, including further quantitative impacts as the new Expected Credit Loss (ECL) model is defined.

Since interpretation issues are still open to debate, and given that it will take time to fully stabilise a new forward looking ECL model, we suggest that quantitative impacts shall be performed through a post implementation review of IFRS 9. It will be all the more necessary in order to assess how IFRS 9 could have pro-cyclical effects that may jeopardize global financial stability or the European public good.

Two main topics should be addressed in the post-implementation review process, relating to short-term volatility in performance reporting and effects in regulatory capital requirements:

- Increase in fair value measurement,
- Forward-looking approach in the new ECL model,

Should you have any questions or should you require any further information, do not hesitate to contact us.

Yours sincerely,

Patricia Bouchard
Head of Account Department