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Subject: ***EBF response to the IASB Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9***

Dear Mr Hoogervorst,

The European Banking Federation[1] (EBF) welcomes the opportunity to comment on the Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9 and would also like to express gratitude to the IASB staff for the extensive outreach undertaken during the consultation period.

Below you will find our comments as well as answers to the questions raised in the Exposure Draft.

We appreciate your consideration of our comments and remain at your disposal to elaborate further on our comments should you wish so.

Yours faithfully,

Guido Ravoet

[1] Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU alone.

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EBF response to the IASB Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9

Key messages

As EBF continues to support the business model as a basis for accounting, we consider IFRS 9 risks reducing the link between the actual business model and the accounting, undermining the ability of financial reporting to meaningfully portray the financial transactions in line with their economic substance.

The EBF appreciates the fact that the IASB has reconsidered IFRS 9 and attempted to improve the distinction between the cost category and fair value through profit or loss category. There are concerns however about how the SPPI (solely payment of principal and interest) clarification would be used in practice and over the instruments that will not pass the SPPI test despite consistency with the held to collect business model.

Since it is no longer realistic to envisage 2015 as a mandatory application date of IFRS 9, it would be preferable to introduce the changes to the own credit via amendments to IAS 39 rather than waiting for IFRS 9 to be implemented.

We question whether the results of IFRS 9 revision represent sufficient improvement over the classification approach in IAS 39 to make changing to a new approach worth the cost and effort.

Although we understand the reintroduction of the fair value through other comprehensive income (FVOCI) category in the interest of convergence and to address insurance specific issues, the objectives of the IAS 39 revision would be better met by providing amendments to the IAS 39 'Available for Sale' impairment requirements and introduce the proposals for own credit in IAS 39 as requested by the EBF previously.

General comments

The EBF would like to underline its support for accounting that appropriately reflects entities' business models. A properly articulated business model should be helpful in communicating management's understanding of the business to the market. However, this is more complex than just an accounting classification. Since the business model sets out how value is created and delivered to customers, for financial services companies the relationship between financial assets and liabilities is critical and looking at a portfolio of assets in isolation makes it difficult to create an accounting classification that can appropriately be described as a business model.

There is a tension between accounting being capable of reflecting the wide diversity of business approaches and setting accounting standards which conform to certain agreed concepts and result in consistent practice. The EBF considers that, with the limited amendments, IFRS 9 risks reducing the accounting classification to a matter of fact, based on defined criteria, which bear little relation to the business models as understood by management.

This disconnect between the actual business model and the accounting could undermine the quality of financial statements and the ability of financial reporting to explain the results. Specifically, where the requirements result in a fair value through other comprehensive income classification for portfolios which support amortised cost financial liabilities, the members of EBF do not consider that this appropriately reflects the business model. While it avoids accounting mismatches in net income, which the EBF strongly supports, it creates accounting mismatches in the balance sheet and movements in other comprehensive income (OCI) which are difficult to understand.

This leads to questioning whether these results are sufficient improvement over the classification approach in IAS 39 to make the change to a new approach worth the effort.

Last but not least, the EBF fully appreciates that the objectives of financial statements and regulatory objectives are not the same. However, in some cases the regulatory and accounting objectives are similar and given the wider economic impact of the accounting rules, the EBF would call for greater dialogue among standard setters, regulators and other policy makers. The EBF is particularly concerned about the relationship between the classification and measurement of financial instruments and the Basel III capital requirements, especially when differences in the accounting classifications will result in differences in required regulatory capital.

Business model

The EBF disagrees with the clarifications proposed to the HTC business model which are rules based and give undue emphasis to the frequency of sales. A certain level of sales is consistent with the amortised cost category, and the rules around these should not be so strict so as to preclude all financial assets including some current ‘loans and receivables’ qualifying for amortised cost measurement. As now worded the definition is very similar to the IAS 39 held-to-maturity category and it should be sufficiently broadened to address common practices around loans and receivables such as syndications and securitisations, allowing the loans that are retained to be maintained at amortised cost.

Financial reporting that reflects the business model results in presentation and disclosure which is more understandable. An artificial separation between the business model and the accounting, as has been experienced in the hedge accounting requirements, results in less meaningful information. This was one of the reasons for the changes in hedge accounting. It was hoped that IFRS 9 would result in a similar improvement for classification and measurement, but this now appears in doubt.

Modified economic relationship

While the SPPI clarifications are helpful in some situations; the EBF considers the clarifications do not address all concerns. There remain concerns about how the clarification would be used in practice and over the instruments that will not pass the SPPI test despite consistency with the held to collect business model. Amortized cost would provide users with more useful information in circumstances when financial instrument features do not lead to leverage and do not impact fair value, for example when the feature is not considered to be an embedded derivative.

Implementation

Since the EBF believes only a completed version of IFRS 9 should be allowed for implementation, EBF considers it is no longer realistic to envisage 2015 as a mandatory application date of IFRS 9. Taking into account the complexity and substantial changes expected to banks internal systems and processes in particular when implementing the new provisioning model, 3 years should be envisaged as implementation period once the standard is finalized.

While the possibility of early adoption of the finalized IFRS 9 should be evaluated against the resulting lack of comparability and the consequences, the modifications concerning the own credit requirements should be allowed for early application as soon as possible. The EBF takes the view that it would be preferable to introduce the changes to the own credit via amendments to IAS 39 rather than waiting for IFRS 9 to be implemented.

Assessing the IFRS 9 revision against its objectives

Having followed closely the process since the decision taken by the Board to reopen IFRS 9 *Financial Instruments* back in December 2011 and the further release of the Exposure Draft (ED), the EBF questions whether the amendments meet their own objectives and whether they are consistent with the overall objectives when the project to amend IAS 39 was first initiated.

In reference to the particular reasons given by the Board to reopen IFRS 9, the EBF has concerns as to whether the proposed amendments efficiently address specific applications issues as outlined in the bullet points above and in response to the questions. Furthermore, given that the insurance proposals are not finalized and the proposed amendments do not wholly solve the accounting mismatches, the EBF does consider the proposed amendments do not properly address the interactions between financial instruments accounting and accounting for insurance contracts.

There also remains significant serious concerns as to whether convergence between IASB and FASB will be achieved given the significance remaining differences between both models and the uncertainty whether there will be convergence on impairment.

Based on EBF concerns on the proposed amendments presented in the ED and their likely interpretation, it is questionable whether the cost of transitioning to the new standard would worth the benefits to users in terms of improvements in the understandability of the information compared to IAS 39. The EBF considers it may in fact better meet the objectives to make amendments to the AFS impairment requirements and introduce the proposals for own credit in IAS 39 as requested previously.

EBF RESPONSE TO QUESTIONS LISTED IN THE EXPOSURE DRAFT

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest?

Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

The EBF welcomes the intention of the Board to propose clarification that would avoid certain instruments that are part of normal banking business, or in certain cases even required by law or consumer protection regulations, to be fair valued.

The EBF acknowledges that this would solve the problem for certain loans with interest rate mismatches between the rate term and fixation period, or loans with administrative rates, particularly those where interest rate reset features have an element of averaging over short time i.e. a smoothing element. There however remain concerns over the instruments that will not pass the SPPI test despite clear consistency with the held to collect and lending business model, for example, residential mortgage containing modifications required by law.

The EBF believes that features that are not in the control of market participants should not result in otherwise compliant financial assets failing to qualify for amortized cost measurement. These include products where interest rates are being set by the governments or regulations requiring particular method of averaging or determining interest reset periods, or where governments require certain feature to be included in determining the interest rate.

The EBF believes that further amendment to the standard are necessary to ensure that instruments where amortized cost will provide users with better information will continue to be measured at cost.

The main examples of financial assets with modifications where the EBF believes the loans are appropriately measured at amortised cost and which are unlikely to meet the SPPI test are:

- Constant maturity loans in China where interest rates are set by government and are subsequently reset to their original tenor. Since this is how interest rates and reset terms are determined in the market, it is difficult to see how the features would change the fair value market participants would determine. As far as the market is concerned, there is not a modified feature because there is no instrument without the feature from which the terms have been modified. However if a hypothetical yield curve is calculated which is not economically or legally possible in the jurisdiction, the cash flows are likely to be more than insignificantly different, particularly if possible future scenarios are taken into account. It seems anomalous that all lending in a jurisdiction should be accounted for at fair value through profit or loss (FVPL) merely as a result of the structure of the market.

- Similar issues would arise with loans to public bodies which are funding by *Livret A* deposits, which have tax benefits for individuals resident in France. The issue with *Livret A* is that the variable interest rate with a reset period different from the index will not be eligible to amortized cost unless the difference between the benchmark instrument and the financial instrument with a reset period different from the index is "more than insignificant". If the mismatch is considered more than insignificant, the "*Livret A* receivable" will have to be accounted for at FVPL. However, the deposit will still be accounted for at amortised cost according to the IAS 39 rules for bifurcation. This will result in a significant accounting mismatch which would not be solved using the fair value option (mainly because of the different credit spreads at stake and the fair value "floor" on the liability side).

- Mortgage loans with floating rates as pricing may include components related to customer relationship, funding costs or required liquidity reserves related to assumptions that the customer will renew the product at the same price which means that the interest rate may implicitly include factors beyond the maturity of the current loan. These products would fail the SPPI test if they are compared to references products at a different rate. While, it is not clear that there is a feature that modifies the relationship between principal and interest, paragraph B4.19C suggests the reason for the rate being set in a particular way is not relevant to the analysis.

- In addition, depending on how the benchmark instrument is defined, certain lending products may fail the SPPI test in those markets where the widely sold products are not aligned with the purely hypothetical instrument as defined in IFRS 9 B4.1.9B, i.e. the hypothetical instrument cannot be substantially found in practice in that market. In such cases, the reference to a hypothetical benchmark would result in the classification of the entire lending portfolios of the banks operating that lending segment at fair value, therefore undermining the usefulness of the overall financial reporting of those banks.

Several options could be considered, in addition to the clarification provided by the IASB, to allow assets that are currently measured at amortised and are held with the objective to collect cash flows, to remain in that category such as:

- Further consideration could be given to interest, including components other than the time value of money and credit risk.

- Consideration could be given to language in IAS 39 which assesses embedded foreign currency derivatives in the context of what is ‘routinely denominated in commercial transactions’ or ‘commonly used in the economic environment in which the transaction takes place’, for example requiring that the benchmark instrument reflects the characteristics of the market where product is widely sold.
- Features that are required by regulation in a particular country could be differentiated from features that are inserted for a particular economic effect.
- Modifications which arise from the operation of law or regulation in a market could be scoped out – it is noted that this was the approach in the staff paper for the October 2012 IASB meeting which was not discussed.
- The FVOCI category could be for financial assets which are in a held to collect business model but which do not qualify for amortised cost as a result of not meeting SPPI.
- The embedded derivative rules could be retained for assets (and replace SPPI) either in their entirety or as the mechanism to determine classification of the whole instrument. This possibility would be consistent with also retaining IAS 39 classifications.

In addition, it would be useful if the basis for conclusions could clearly explain the differences between embedded derivatives and modified economic relationships, clarifying why certain features would cause an instrument to fail SPPI test, but would not be considered an embedded derivatives under IAS 39, specifically interest rate mismatch features. Further, the EBF would like to understand why it is appropriate for such instruments to be measured at FVPL.

There are also concerns over the practicability of the assessment. For example, even if loans with the same terms can be assessed together, their date of issuance could affect the cash flows resulting from a mismatch feature and could therefore change the result of the test, so monthly or even daily testing could be required in some cases.

There is uncertainty regarding the unit of account for performing the SPPI test. One of the reasons for this uncertainty is that some indicators regarding when to measure at amortised cost seems to be at a portfolio level while others seems to be focused on a single instrument. The EBF believes that unit of account may be a very important factor when performing the SPPI test for some financial assets. The interest rate may be set based on the expected duration of the portfolio rather the contractual maturity for a single financial asset. This could be the case solely based on internal risk management or based on local regulations requiring a pricing based on the expected duration of the portfolio rather than a shorter contractual maturity.

The EBF is not convinced that additional guidance in an area that is subject to judgment is necessary. Rather, it may be helpful to make some clarifications or scope exemptions as set out above.

As the possible final version of IFRS 9 may use the terms ‘insignificant’ and ‘significant’ in different contexts, the EBF suggests the terms are clarified with reference to materiality. We, for example, do not suggest that the terms should have a single bright line definition e.g. 10%, but consideration could be given to making sure that such an interpretation is not possible. Materiality assessments are both qualitative and quantitative and different judgments are made in different circumstances. Perhaps the basis for conclusions can explain the terms in relation to such materiality considerations and make it clear that there is not an intention in the standard to create a bright line. The term ‘more than insignificant’ may be interpreted too restrictively and its interpretation could be subject to different shapes and trends in the yield curve existing in different periods which could reduce comparability. It may be helpful to use a different term such as ‘not significant’ as well as clarifying the nature of the assessment.

Lastly, the members of EBF have identified an issue with the example of instrument G (IFRS 9 B1.1.14). It is common that such instruments are used by parents to fund their banking subsidiaries. It does not seem appropriate that such a loan should be at FVPL when other debt funding or equity funding would be at cost or amortised cost in the parent company’s individual financial statements. Where such a loan forms part of the parent’s net investment in the subsidiary, amortised cost seems most appropriate and the scopes of IFRS 9 and IAS 27 should be amended to accommodate this treatment.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

(a) interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and

(b) all other gains and losses are recognised in OCI?

Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

As noted earlier, the EBF supports accounting that appropriately reflects entities’ business models. Since the business model sets out how value is created and delivered to customers, for financial services companies the relationship between financial assets and liabilities is critical and looking at a portfolio of assets in isolation makes it difficult to create an accounting classification that can appropriately be described as a business model.

There is a tension between accounting being capable of reflecting the wide diversity of business approaches and setting accounting standards which conform to certain agreed concepts and result in consistent practice. The EBF members consider that, with the limited amendments, IFRS 9 risks reducing the accounting classification to a matter of fact, based on defined criteria, which bear little relation to the business models as understood by management. This disconnect between the actual business model and the accounting could undermine the quality of financial statements and the ability of financial reporting to explain the results.

A key concern of the industry is the measurement of liquidity portfolios in the broadest sense. Such portfolios meet the regulatory requirements for an entity to have sufficient liquidity in terms of stressed scenarios and the need to maintain a sufficient regulatory buffer in times when there is a need for increased liquidity. Such portfolios are also used to support the deposit and lending businesses, seeking to manage the liquidity and interest risks arising from these businesses. Some entities may separately identify portfolios for these different purposes, but others may manage the whole together.

Many jurisdictions have regulatory requirements that instruments in these portfolios must be sold from time to time to demonstrate liquidity to the local regulators (although the nature and amount of sales required by regulators may vary by jurisdiction or portfolio).

There is also a need to re-balance these portfolios from time to time due to changes in the underlying deposit and lending businesses and in interest rates and potentially in the credit quality of the investments. There is no intention on behalf of the entity to manage these portfolios in terms of producing short term profits. There is however concern that these will fail the amortized cost classification as a result of its reliance on frequency of sales as the distinguishing feature. This rule-based focus on individual portfolio in isolation may bear little relation to the business models as understood by management which will incorporate an understanding of how financial assets relate to financial liabilities and the overall business objective to deliver value.

Should the above described portfolios fail the amortized cost classification an accounting mismatch would be created in the balance sheet given that the underlying liabilities are accounted for at amortized cost. Portfolios are used to manage the interest rate risk of amortized cost liabilities and requiring the assets to be measured at fair value (with most of changes in fair value being caused by changes in the interest rates being hedged) causes accounting results at odds with the economics.

This disconnect between the actual business model and the accounting could undermine the quality of financial statements and the ability of financial reporting to explain the results. It may also create inconsistencies between entities with similar business models due to whether or not they choose to structure some parts of their portfolios to meet accounting rules.

Therefore, the EBF thinks there is a fundamental choice to be made. IFRS 9 can continue to take an approach to classification and measure that is based on the business model. The EBF would support such an approach and set out below some considerations to be taken into account which would result in classification and measurement more in keeping with banks' business models.

Alternatively, (and assuming instruments meet SPPI) if the objective is for loans and receivables and held to maturity categories under IAS 39 to be at amortised cost, trading assets and derivatives and FVPL and all other financial assets at FVOCI, there seems little point trying to articulate this approach in terms of business models. Such classification requirements can be expressed more simply in terms of IAS 39 categories and this would avoid the cost and effort in reviewing and documenting business models for no effect on the accounting classification.

If the aim is for IFRS 9 to reflect banks' business models, it should be borne in mind that banks manage their business on a portfolio basis, with portfolios being put together to meet the business objectives. A distinction needs to be made between the intention to generate contractual cash flows and the intention to realise profit in the near term. Even if repeated sales at frequent intervals are not a feature of the latter business model, fair value measurement is nevertheless appropriate because the portfolio is managed on a fair value basis. Sales ahead of maturity can also occur under a ‘hold to collect’ business model without this necessarily calling the business model into question. A bank’s assets are financed by its liabilities e.g. deposits. But since the bank has only limited influence over its liabilities, these are normally subject to fluctuations e.g. customer withdrawals of deposits. Since changes in liabilities necessitate adjustments to the bank’s assets, sales ahead of maturity are sometimes inevitable.

Unlike the externally driven circumstances described above, maintaining a stable interest margin is driven by the internal risk management decisions. Banks often use replicating portfolios to try and maintain their interest margin at a certain level. With a view to ensuring refinancing at matched maturities, the liabilities structure is mirrored by securities with corresponding maturities on the assets side. Changes in the liabilities structure – caused, for example, by customer withdrawals – have to be replicated on the assets side to maintain the balance. Though this frequently requires assets to be sold, the original objective – namely to generate contractual cash flows – remains the same. Adjustments in the form of sales are nevertheless necessary to maintain a stable interest margin. This is in no way at odds with the objectives of an amortised cost business model, since the bank’s intention in holding the portfolio continues to be to collect contractual cash flows, not to realise yields in the near term. From a portfolio management perspective, the focus is therefore still on the portfolio as a whole rather than on the level of individual transactions (in this case: sales). The IASB’s focus on individual transactions e.g. early sales mean removal from the amortised cost category, effectively ignores this portfolio-level view and the broader relationship with amortised cost liabilities.

The reason for rebalancing of portfolios must also be considered. For example, the transition to IFRS 9 is most likely to happen in the environment of low interest rates, however it is expected that the interest rate will increase in the future. A business model approach would need to accommodate rebalancing driven by such external factors.

The EBF believes that the entity’s specific requirements to manage changes in interest rates or concentration or similar risk as defined and documented in entities’ risk management practices and investment strategies should be built into the definition of the business model. It should be considered that the business model assessment is not done at the level of individual instruments. This would clearly encompass a portfolio-level view. For example, sales to manage concentration risk would be part of such a business model.

If IFRS 9 continues to pursue the articulation of the business model approach set out in the ED, the EBF suggests that the following issues will need to be clarified:

– The examples provided of FVOCI are so broad and that the distinction between FVOCI and FVPL is not clear. The first example in paragraph B4.1.4B describes a situation in which an entity is aiming to maximise the return on financial assets and will sell to reinvest the cash in assets with a higher yield when the opportunity arises. This example is deemed FVOCI since the sales activity is to maximise yield rather than more speculative activity based on expectations of fair value increases, which would be FVPL. It is questioned whether there is a clear distinction between frequent sales to manage yield and frequent sales to maximise profit.

- While the EBF recognizes that the ‘frequency of sales’ and ‘significance’ would imply a certain degree of judgment, further clarification may be necessary to ensure appropriateness of the amortized cost category definition.

- The ED is clear that sales resulting from the credit deterioration in the asset’s credit quality are consistent with the objective of hold to collect. The EBF would suggest further clarification of the wording to allow sales, in advance of actual credit downgrades, that aim at preventing losses, to be deemed consistent with the amortized cost category as long as there is sufficient objective evidence and the sales are consistent with entity’s documented investment policy and internal gradings. It should also be clarified that the degree of credit deterioration is not meant to be as high as the degree that would require lifetime expected losses allowance under the proposed IFRS 9 impairment rules.

- Whether a level of securitisations will impact the business model assessment, even if derecognition is not achieved? It is understood that if derecognition is not achieved, securitization is not considered a sale, however clarification would be appreciated. What if it is not known at the time of origination which loans will be securitized and which ones will be retained? It appears example 3, which is not amended by the ED (IFRS 9 B4.1.4) assumes that the subsidiary sells all its loans to the securitization vehicle so FVPL is appropriate.

- Where a loan is syndicated, should both the portion to sell and the retained portion be in the FVOCI category? Under IAS 39, the portion to sell would be held at FVPL, and the retained portion would be held at amortised cost. The EBF members would recommend that it is made clear that the business model can be applied to portions of instruments, so as to maintain the IAS 39 treatment.

- How should the business model assessment interact with held for sale assessments under IFRS 5? If a reclassification was required, IFRS 9 would require that this be made in prospectively at the start of the first reporting period following the change in business model. The remainder of the disposal group would be reclassified when the IFRS 5 criteria are met. This could result in different dates of reclassification for the financial assets and the other items in the disposal group. IFRS 9 would require measurement of the loans at fair value, but IFRS 5 requires re-measurement at the lower of and fair value less costs to sell and carrying amount for other assets.

- Whether standing ready to consider offers of debt holders to repurchase their securities be assessed in determining the business model? Or whether having significant loan restructurings that result in derecognition of the original loans could call into question a hold to collect business model?

- According to the ED, even significant sales ahead of maturity should not preclude amortised cost measurement as long as such sales are infrequent. This means a bank is permitted to wind down significant portions of a portfolio as long as the above conditions are met and the sales are covered by the bank’s investment policy. The basis for significant transactions of this kind is normally a single top management decision. The larger the amount of assets to be sold, however, the more difficult it is to place them all on the market at the same time. It is therefore normal practice in such cases for the sale to take place in tranches over an extended period (sometimes years). EBF members take the view that sales along these lines can also be deemed ‘significant but infrequent’ since they are based on a single decision to sell. Measurement at amortised cost should therefore be permitted. The same should apply when a management decision is taken to implement an external instruction (from supervisors, for instance). Even a series of external instructions e.g. to reduce the size of the balance sheet, should not preclude the bank’s ability to measure affected portfolios at amortised cost. Certain external events and regulatory instructions are unforeseeable and beyond the influence of the bank. Since the original objective of the portfolio remains the same, measurement at amortised cost continues to be justified.

The FASB ED uses different language for its business model approach which more clearly sets out restrictions on the scope of amortised cost. The EBF suggests that the IASB in the basis for conclusions clearly sets out what is different and why. Otherwise, it is likely that the IFRS will be interpreted in the same manner as the FASB that could lead to further broadening of the gap between the measurement and the economic substance of transactions.

Finally, the EBF would like to note of the following issue with the FVOCI category:

– It is not clear why own credit gains and losses should be not be recycled when the liability measured at fair value is derecognized. Similarly, is not clear why recycling should be required for debt securities but not for equity securities which are also FVOCI. While it may be possible to justify individually divergent treatments, EBF members question the resulting complexity and lack of conceptual basis for OCI and recycling.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead

If not, why? What do you propose instead and why?

The EBF has no objections to such a fair value option.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

The EBF does not offer any opinion on this question which is not relevant in the context of the European Union where IFRS 9 cannot be applied until it is endorsed.

Question 8

Do you agree that entities should be permitted to choose to early apply only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

The EBF believes only a completed version of IFRS 9 should be allowed for implementation, and therefore considers it is no longer realistic to envisage 2015 as a mandatory application date of IFRS 9. Taking into account the complexity and substantial changes expected to banks internal systems and processes in particular when implementing the new provisioning model, the EBF takes the view that 3 years should be envisaged as implementation period once the standard is finalized.

Furthermore, given that for several entities IFRS 9 is inextricably linked with IFRS 4, the independencies between these two standards should be taken into account when considering the IFRS 9 mandatory implementation date.

While the possibility of early adoption of the finalized IFRS 9 should be evaluated against the resulting lack of comparability and the consequences, the modifications concerning the own credit requirements should be allowed for early application as soon as possible. The EBF considers that it would be preferable to introduce the changes to the own credit via amendments to IAS 39 rather than waiting for IFRS 9 to be implemented.

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