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**n°**

Paris, the **8 July 2013**

Mr Hans HOOGERVORST
Chairman

IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

**Re: IASB ED 2013/3 Financial instruments: expected credit losses**

Dear Mr Hoogervorst,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the Exposure Draft (ED) Financial instruments: expected credit losses released by the IASB in March 2013.

The ANC reaffirms its support to the IASB's decision to review the Incurred Loss Model currently included in IAS 39 and to propose an Expected Loss Approach that enables earlier and timelier recognition of credit risk and related losses. The ANC agrees that an expected loss approach should resolve, in an operational manner, the current timing mismatch between the recognition (as revenue) of the credit risk premium included in the interest charged to the borrower and the recognition of the related credit loss.

The ANC agrees with the IASB's view that the model proposed in the 2009 ED conceptually most faithfully represents expected credit losses. We therefore welcome the IASB's efforts to find a new solution that provides simplification to address the operational challenges of the initial approach but would still try to approximate the outcome of the model in the 2009 ED.

The ANC supports a dual measurement approach to recognise expected credit losses in a timely manner, as it is consistent with the way many entities manage credit risk in practice. We consider that the dual proposed approach based on 12-month or lifetime expected loss is a pragmatic and simplified approach based on the initial model of the IASB that still reflects the economic link between the pricing of financial instruments and the credit quality at initial recognition.

We therefore strongly agree with the IASB that recognising a loss allowance from initial recognition at an amount equal to lifetime expected credit losses, as proposed by the FASB, does not faithfully represent the underlying economics of financial instruments. Moreover, the initial recognition of day-one losses for the full life-time expected losses may impair the financial institutions' capacity to finance the real economy. This is especially critical in Europe where the funding of the economy is more dependent on the banks' intermediation.

However, we have strong concerns regarding the transfer criteria between stages 1 and 2. Namely,

- the ED requirements (in paragraphs 8 and B 14-15) to track and compare, on a quantitative basis, the initial PD with the PD at the reporting date is over prescriptive, operationally burdensome and does not suit an open portfolio, which is the way most banks manage their credit risk. Hence, practical expedients should be allowed when the credit risk is managed on an open portfolio.
- the notion of "low credit risk" cannot be assimilated to the concept of "investment grade" (IG) used in asset management. While we agree that the exception in par. 6 of the ED to the analysis of the change in credit risk when the credit risk is low may be operationally useful, the implicit "bright line" (IG vs non IG) that it states may have unintended consequences on SMEs' financing activities (usually non IG) or on insurance companies holding externally rated bonds that may be automatically transferred into stage 2. The IG category is not homogeneous in terms of credit quality and thus other available information may also evidence that exposures within this category have suffered a deterioration in their credit risk sufficient to justify a transfer into stage 2. Therefore, the introduction of a practical expedient should not endanger the application of cornerstone of the IASB model, which is that all significantly deteriorated credit exposures shall be included in stage 2.

We hence consider that:

- For financial assets assessed on an individual basis (or closed portfolio basis), such as a bond held by an insurance company, the transfer between stages 1 and 2 should be based on all available information which is specific to this individual investment without any automatic condition or bright line such as a downgrade below investment grade by an external rating agency. The notion of investment grade should only be considered as one indicator among others and not be specifically referred to in the principles of the standard.
- For financial assets assessed on open portfolio basis, such as loans held by banks, in order to better align the accounting requirements with the credit risk management of these entities, the transfer from stage 1 to stage 2 should occur when the performance of a portfolio of loans becomes increasingly deteriorated but well in advance being doubtful, respecting the prudence principle; this is in order to avoid that a transfer to a lifetime expected loss takes place at too late a stage, thereby not adequately reflecting deterioration in credit quality. At this stage, forward looking information which imply deterioration have been identified for loans or for portfolios having the same credit risk characteristics.

Therefore, we recommend to the IASB to clarify in the ED that the tracking of the probability of default on an individual basis, or even for a portfolio segment, is not required for all entities and to allow them, when this is consistent with their risk management practices, to determine portfolios by portfolios the level that triggers the transfer between stages 1 and 2.

Moreover, some questions remain about the potential pro-cyclicality of the model (given the point-in-time assessment of expected loss). It is extremely difficult and uncertain to assess in which phase of the economic cycle the entity granting a loan is. Therefore, the estimate of expected losses would be more reliable using "through-the-cycle" parameters adjusted to take into account the economic environment - when this is relevant - by using professional judgment.

Regarding the IASB and FASB's commitment to work together to find a converged expected loss model, we want to stress that the current proposal is acceptable only to the extent that the allowance of the first stage is limited to 12-month expected loss. Moreover, we would like to remind that the notion of “foreseeable future” was rejected by most respondents to the supplementary document issued jointly by the IASB and the FASB in 2011.

In addition, we want to express that it is critical to take into consideration the various business models in banking activities.

In short, massive upfront losses recognition will weigh much more on institutions holding their claims over a long period - as in most of Europe - than on institutions that do not hold claims for a long period. Not only would such approach by itself not guarantee a better level of provisions from an economic standpoint - as opposed to less mechanical rules and careful judgement based on prudence - but it can also lead to sharp swings in the levels of provisions recognition and reversal through the cycle, leading accordingly to swings in income, which may not faithfully reflect the institutions' performance, not to mention that such approach, by design, may well trigger more pro-cyclicity.

Our detailed comments have been included in the Appendix attached to this letter.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jérôme HAAS

Appendix 1

**Question 1**

*(a) Do you agree that an approach that recognises a loss allowance (or provision) at an amount equal to a portion of expected credit losses initially, and lifetime expected credit losses only after significant deterioration in credit quality, will reflect:*

*(i) the economic link between the pricing of financial instruments and the credit quality at initial recognition; and*

*(ii) the effects of changes in the credit quality subsequent to initial recognition?*

*If not, why not and how do you believe the proposed model should be revised?*

*(b) Do you agree that recognising a loss allowance or provision from initial recognition at an amount equal to lifetime expected credit losses, discounted using the original effective interest rate, does not faithfully represent the underlying economics of financial instruments? If not, why not?*

**(a)** The ANC reaffirms its support to the IASB's decision to review the Incurred Loss Model currently included in IAS 39 and to propose an Expected Loss Approach that enables earlier and timelier recognition of credit risk and related losses. The ANC considers that an expected loss approach should resolve, in an operational manner, the current timing mismatch between the recognition (as revenue) of the credit risk premium included in the interest charged to the borrower and the recognition of the related credit loss.

The ANC agrees with the IASB's view that the model proposed in the 2009 ED conceptually most faithfully represents expected credit losses. As explained in our comment letter to this first ED, "*while the ANC agrees with the main objective of the impairment model proposed by the Board, we have concerns relating to the resulting application that is made of this objective*". Namely, the "*proposed approach could undermine its cost/benefits ratio by requiring the use of effective interest rates (EIR) for each individual financial asset (or very thin closed portfolio)*". Following the 2009 ED, we welcomed some improvements proposed by the Supplementary Document (SD) for open portfolios. However, this model was not entirely satisfactory.

We therefore welcome the IASB's efforts to find a third solution that provides simplification to address the operational challenges of the initial approach but would still try to approximate the outcome of the model in the 2009 ED.

The ANC supports a dual measurement approach to recognise expected credit losses in a timely manner, as it is consistent with the way many entities manage credit risk in practice.

We agree that, at a certain stage of deterioration (stage 2 in the ED) in the credit risk (see our answer to Q5) and before a credit loss event occurs, the full lifetime expected losses should be recognised in profit or losses.

Regarding financial assets in stage 1, we acknowledge that recognising a portion of the lifetime expected credit losses from initial recognition is proposed by the IASB (BC 29a) as a proxy for recognising the initial expected credit losses, not point in time on the issuance date, but over the life of the financial asset, in parallel with the collection of credit premiums. By recognising only a small portion of the lifetime expected credit losses, this approach takes into account the credit risk premium contractually charged to the borrower and recognised over the life of the financial asset. Thus, it would avoid, in the beginning of the life of a financial asset, both to overstate interest revenues (before a credit loss event occurs as under IAS 39) and to understate revenues (if the full lifetime expected losses was recognised at inception as proposed by the FASB – see our answer to Q1b).

The recognition of 12-month EL at a first stage, together with the recognition of lifetime EL when credit quality is deteriorated, is a way to approximate the global outcome of the model in the 2009 ED.

**Therefore we agree that the dual proposed approach is a pragmatic and simplified approach based on the initial model of the IASB that still reflects the economic link between the pricing of financial instruments and the credit quality at initial recognition.**

However, we have concerns regarding the transfer criteria between stages 1 and 2 (see our answer to question 5).

(**b)** We agree with the IASB that recognising a loss allowance from initial recognition at an amount equal to lifetime expected credit losses does not faithfully represent the underlying economics of financial instruments.

The recognition of the full lifetime expected credit losses at initial recognition does not take into account the fact that the expected loss is normally offset by a credit risk premium which is included in the interest rate charged to a borrower over the life of the instrument.

By ignoring this premium, the recognition of lifetime expected losses at inception leads to undue day-one losses. This is particularly true and counterintuitive for loans granted at market rate. Such day-one losses may even be seen by shareholders as a sign of poor management. Moreover, the initial recognition of day-one losses for the full life-time expected losses may impair the financial institutions' capacity to finance the real economy, especially SMEs or retail customers with a higher risk profile and who have no access to financial markets. It may also prevent financial entities from developing new financing business (compared to a steady state portfolio) without facing significant losses. Furthermore, the FASB's proposed methodology will display a significant profit (reversal of allowance) if an institution sells a part of its loans books, which is at best counterintuitive, as the exit price will include both expected premiums and expected losses.

Therefore, we disagree with the impairment model proposed by the FASB, which ignores the issue of the timing for building up credit risk provisions. While a simpler model may be welcome, it cannot be made at the cost of the relevance of the model.

**Question 2**

*(a) Do you agree that recognising a loss allowance (or provision) at an amount equal to 12-month expected credit losses and at an amount equal to lifetime expected credit losses after significant deterioration in credit quality achieves an appropriate balance between the faithful representation of the underlying economics and the costs of implementation? If not, why not? What alternative would you prefer and why?*

*(b) Do you agree that the approach for accounting for expected credit losses proposed in this Exposure Draft achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than the approaches in the 2009 ED and the SD (without the foreseeable future floor)?*

*(c) Do you think that recognising a loss allowance at an amount equal to the lifetime expected credit losses from initial recognition, discounted using the original effective interest rate, achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than this Exposure Draft?*

**(a)** We acknowledge that, having in mind the comments received on its previous proposals, recognising 12-month expected credit losses is proposed by the IASB as a proxy for recognising the initial expected credit losses over the life of the financial asset (i.e. a portion of the expected credit losses). Though other methodologies may be envisaged to achieve the same objective – for example reserving the risk premiums received over the life of a loan to build a loss provision, a 12-month period represents a reasonable and pragmatic horizon to obtain a reliable estimate of expected loss which is aligned with the usual duration of a financial reporting period.

While that measurement method seems rules-based, we agree that, together with the recognition of the lifetime expected credit losses when credit quality has deteriorated, it may be seen as a balanced way to reconcile the faithful representation of the economics of a financing activity and the cost of implementation of an expected losses model.

We also note that the 12-month expected loss has been internally developed by banks for prudential purposes under the Basel II framework at the request of regulators, although not being perfectly equivalent to the ED proposal.

We also want to stress that the 12-month expected credit loss cannot be replaced by foreseeable future. We consider that the foreseeable future is not relevant since it does not remain constant over time (i.e. during an economic downturn, the foreseeable future is shortened which may untimely lead to reduce the level of credit risk provision). As explained in our comment letter to the SD, "*the concept of "foreseeable future" is not clearly defined and potentially broad and uncertain. If the Board were to maintain the floor on the good book in spite of our concerns, we would request the Board to cap the floor at a twelve month horizon*".

Though we agree with the global mechanism proposed in this ED, we have strong concerns regarding the transfer criteria between stages 1 and 2 (see our answer to question 5). In particular, instead of creating an implicit bright line between investment grade and non-investment grade instruments, we consider that the transfer between the first and the second stage should be more consistent with the risk management of entities while respecting the mere principle of the model (see our answer to Q5). Moreover, the cost of implementation of the tracking of the credit quality instrument by instrument may undermine the cost/benefit ratio of the proposed model.

In addition, with respect to the functioning of the model, a question arises as to whether the first stage allowance may be reversed in practice. Once a transfer out of stage 1 occurs, the IASB should make sure that its model leads to a provision loss in stage 2 as well as a consistent reversal of the stage 1 provision. The model should avoid a mechanical double-counting of provisions, even for open portfolios.

**(b)** Since the 2009 ED and the SD were criticised by many as raising several operational difficulties and significant costs, we agree that this Exposure Draft, which simplifies the previous proposals, may achieve a better balance between the faithful representation of the underlying economics and the cost of implementation but only if the transfer criteria between stages 1 and 2 are revised as exposed in our answer to Question 5.

**(c)** As explained in our answer to question 1b, we think that while a simpler model may be welcome, it cannot be made at the cost of the relevance of the model. Therefore, we believe that recognising a loss allowance only at an amount equal to the lifetime expected credit losses from initial recognition does not achieve a better balance between the faithful representation of the underlying economics and the cost of implementation than this ED.

**Question 3**

*(a) Do you agree with the proposed scope of this Exposure Draft? If not, why not?*

*(b) Do you agree that, for financial assets that are mandatorily measured at FVOCI in accordance with the Classification and Measurement ED, the accounting for expected credit losses should be as proposed in this Exposure Draft? Why or why not?*

**(a)** We agree with the proposed scope of the Exposure Draft except for short term trade receivables. We especially agree with including loan commitments and financial guarantees (accounted for under IAS 39/IFRS 9 and that are not measured at fair value through P&L), consistently with our comments in the ANC's letter to the SD.

However, as already explained in our previous comment letters to the IASB, short term trade receivables should be exempted from the expected loss approach and the current incurred loss model (including IBNR) should be maintained since the distinction between incurred and expected loss is very thin for very short term financial assets such as trade receivables held by corporate entities. Such exemption should not preclude from using statistical methods for portfolios made of small individual amount-trade receivables, as currently allowed by IAS 39.

The cost of implementing an expected loss model for corporate entities, even under a simplified model, may outweigh the benefits due to the short maturity of these assets.

**(b)** We agree that debt instruments both measured at FV-OCI or at amortised cost should follow the same credit impairment model. This is one of the well known weaknesses of IAS 39 that we urged the Board to fix in 2009 when the FASB decided to better align the impairment rules of available for sale debt securities with loans (see our comment letter on the Request for views on proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities in April 2009).

**Question 4**

*Is measuring the loss allowance (or a provision) at an amount equal to 12-monthexpected credit losses operational? If not, why not and how do you believe the portion recognised from initial recognition should be determined?*

For banks, we agree that measuring the loss allowance at an amount equal to 12-month expected credit losses is operational as many banks will be able to use their risk management systems already used for regulatory purpose as a starting basis for the assessment required by the ED.

Moreover, the fact that the ED does not require a unique method of measurement of 12-month expected losses (12-month PD x LGD, provision matrix, etc) will ease the operationality of the model.

However, for other industries, including insurance companies, expected loss data are not currently used by their risk management. Therefore, the cost of implementing that measurement will not be minimised by building on existing systems and an appropriate lead time is necessary to put into place the necessary processes.

**Question 5**

*(a) Do you agree with the proposed requirement to recognise a loss allowance (or a provision) at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition? If not, why not and what alternative would you prefer?*

*(b) Do the proposals provide sufficient guidance on when to recognise lifetime expected credit losses? If not, what additional guidance would you suggest?*

*(c) Do you agree that the assessment of when to recognise lifetime expected credit losses should consider only changes in the probability of a default occurring, rather than changes in expected credit losses (or credit loss given default ('LGD'))? If not, why not and what would you prefer?*

*(d) Do you agree with the proposed operational simplifications, and do they contribute to an appropriate balance between faithful representation and the cost of implementation?*

*(e) Do you agree with the proposal that the model shall allow the re-establishment of a loss allowance (or a provision) at an amount equal to 12-month expected credit losses if the criteria for the recognition of lifetime expected credit losses are no longer met? If not, why not, and what would you prefer?*

**(a)** The ANC is strongly concerned by the proposed criteria to transfer financial assets from stage 1 to stage 2 for the following reasons:

- The ED wording is not clear about whether preparers, to determine if a transfer has to be made, must focus on the absolute credit deterioration of a loan beyond some threshold (as illustrated by the bright lines like investment grade or 30 days past due), or if the significance of the deterioration has to be appreciated on a relative manner (as described in paragraphs 8 and B 11- B 16). This second approach may be justified if the credit risk is managed on an individual basis or implies to build closed portfolios. However, it does not suit an open portfolio, which is the way most banks manage their credit risk.
- The method of assessment of the deterioration of the credit risk proposed in the two last sentences of par. 8 and the related application guidance is too prescriptive and may be interpreted as requiring a systematic quantitative comparison of PDs taking into account the remaining life of a financial asset. The IASB must clarify that a quantitative comparison of PDs is not the sole allowed method of assessment. For instance, other indicators and forward looking information may be considered (e.g. internal qualitative grade).The notion of "low credit risk" cannot be assimilated to the concept of "investment grade" (IG) used in asset management: while we agree that the exception in par. 6 of the ED to the analysis of the change in credit risk when the credit risk is low may be operationally useful, the implicit "bright line" (IG vs non IG) that it states may have unintended consequences:
  - Loans to SMEs which are usually non investment grade may fall in stage 2 automatically due to a misinterpretation that, in practice, non IG is an indicator of a deteriorated instrument. While the impairment model shall appropriately consider the credit characteristics of the SMEs and their changes, it should not discourage financial institutions from financing these entities that have no access to financial markets. This is especially critical in Europe where the funding of the economy is more dependent on the banks' intermediation.
  - the fact that most of the debt securities held by insurance companies are quoted on active markets and rated by well-known rating agencies should not lead to automatic transfer triggered by the opinion of one of these agencies or by the implied PD based upon the market price of bonds or CDS. The IASB should clarify that, contrary to the fair value hierarchy in IFRS 13, entities should not give more weight to external or quoted inputs for the purpose of the assessment and measurement of expected credit losses.

  The IG category is not homogeneous in terms of credit quality and thus other available information may also evidence that exposures within this category have suffered a deterioration in their credit risk sufficient to justify a transfer into stage 2. Therefore, the introduction of a practical expedient should not endanger the application of cornerstone of the IASB model.

- Operational burden: the tracking of the credit quality from inception for each individual financial asset, which is implicitly required by the ED, will lead to operational burden, significant implementation costs and delay since this historical information is not available in the risks systems. For instance, for a portfolio of bonds, the tracking exercise of the credit deterioration since the inception date may be overly complex if some similar bonds issued by the same counterparty may be classified in stage 2 and the others in stage 1 depending on the date of acquisition.

We consider that:

- For financial assets assessed on an individual basis (or closed portfolio basis), such as a bonds held by an insurance company, the transfer between stages 1 and 2 should be based on all available information which is specific to this individual investment without any automatic condition or bright line such as a downgrade below investment grade by an external rating agency. The notion of investment grade should only be considered as one indicator among others and not be specifically referred to in the principles of the standards. Moreover, we note that some legislation (e.g. Dodd-Frank Act in the US) forbid reference to notion of IG and external credit ratings, which could justify to avoid using the IG terms but to define the "low risk" notion. Indeed, the experience of insurers shows that impairment systematically based on external market signals such as ratings would lead to overestimating expected credit losses. Moreover, we note that rating agencies may provide divergent opinions. Therefore, the impairment model should lead to anticipate expected credit losses but prevent from recognising excessive provisions in stage 2 that would never result in incurred losses in practice.
- For financial assets assessed on open portfolio basis, such as loans held by banks, in order to better align the accounting requirements with the credit risk management of these entities, the transfer from stage 1 to stage 2 should occur when the performance of a portfolio of loans becomes increasingly deteriorated but well in advance being doubtful, respecting the prudence principle; this is in order to avoid that a transfer to a lifetime expected loss takes place at too late a stage, thereby not adequately reflecting deterioration in credit quality. At this stage, forward looking information which imply deterioration have been identified for loans or for portfolios having the same credit risk characteristics. This threshold is consistent with a significant increase in risk of credit losses relative to acceptable credit standards for a particular portfolio. It has to be identified at a level where loans will not hover around the line, leading to erratic movements in provisioning, corresponding not to different economic situations, but to various hypotheses about the behaviour of the economic cycle on a medium-long term horizon.

Such level triggering the transfer between stages 1 and 2 will also reflect the moment when loans or portfolios of loans require greater credit–risk management attention under specified defined procedures (such as a watchlist for example).

This level may be illustrated by, but not limited to:

- Past due status, a criterion often appropriate in retail loan business;

- The delinquency rates, implicit in the various internal credit ratings;

- At the latest, the internal rating where the general credit policy of the bank is to prohibit any loan granting without requiring specific guarantees.

The threshold for lifetime measurement will be articulated at the level which is relevant from a credit risk management perspective for a particular portfolio. Indeed, while the principle applied to all portfolios would be the same, the way to assess the level would be different for different types of loans and portfolios to capture the aspect of significant credit deterioration that is relevant for each specific portfolio.

Therefore, we recommend to the IASB to clarify in the ED that the tracking of the probability of default from origination on an individual basis is not required for all entities. This is also true for a portfolio segment. The IASB should rather allow entities, when this is consistent with their risk management practices, to determine portfolios by portfolios the level that triggers the transfer between stages 1 and 2 as described above.

**(b)** We consider that if the principles for the recognition of expected credit loss are clear and understandable, there is no need to provide too much application guidance. Nevertheless, the way an entity applies these accounting principles in practice and manages its credit risk must be disclosed to enhance comparability between institutions.

**(c)** We agree that the assessment of when to recognise lifetime expected credit losses should be based on the probability of a default occurring, rather than the whole expected credit losses (or credit loss given default ('LGD')). The provision of the expected loss upon default must take into account guarantees or collateral but the fact that the magnitude of the credit loss is mitigated by such guarantees should not drive the classification of a financial asset in stages 1, 2 or 3.

This is consistent with the way entities manage their credit risk.

**(d)** Notwithstanding our concerns exposed in our answer to Q5a above, the proposed operational simplification introducing a ***rebuttable*** presumption that a significant increase in credit risk has occurred when payments are more than 30 days past due is helpful and consistent with the way credit risk is assessed in practice for some specific activities (e.g. consumer loans). However, this indicator is not relevant for all financing activities.

**(e)** We agree with the proposal that the model shall allow the re-establishment of a loss allowance at an amount equal to 12-month expected credit losses (stage 1) if the criteria for the recognition of lifetime expected credit losses (stages 2 or 3) are no longer met. This is consistent with the way entities manage their credit risk.

**Question 6**

*(a) Do you agree that there are circumstances when interest revenue calculated on a net carrying amount (amortised cost) rather than on a gross carrying amount can provide more useful information? If not, why not, and what would you prefer?*

*(b) Do you agree with the proposal to change how interest revenue is calculated for assets that have objective evidence of impairment subsequent to initial recognition? Why or why not? If not, for what population of assets should the interest revenue calculation change?*

*(c) Do you agree with the proposal that the interest revenue approach shall be symmetrical (ie that the calculation can revert back to a calculation on the gross carrying amount)? Why or why not? If not, what approach would you prefer??*

(a) The recognition of interest once a credit loss has occurred raises an accounting issue. We acknowledge that the FASB introduces a non accrual status in its expected loss model (which is already in use under current US GAAP) whereas the IASB decided to recognise interest revenues on a net carrying amount (amortised cost) if there is objective evidence of impairment.

Since a non accrual status is not compatible with the effective interest rate notion under IFRS, we agree that the IASB's proposal is the solution that best suits its own model for financial instruments.

(b) We agree with the proposal to change how interest revenue is calculated only for stage 3 financial assets, i.e. assets that have objective evidence of impairment subsequent to initial recognition. This notion is already well-known under IAS 39 and we consider that the stage 3 portfolio will provide information useful to users.

(c) We agree with the proposal that the interest revenue approach shall be symmetrical when a financial asset is transferred from stage 3.

**Question 7**

*(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?*

*(b) Do you foresee any specific operational challenges when implementing the proposed disclosure requirements? If so, please explain.*

*(c) What other disclosures do you believe would provide useful information (whether in addition to, or instead of, the proposed disclosures) and why??*

We support the principle of full and transparent disclosures to help users properly understand the outputs of the model and assess the amount of judgement that is inherent to them.

The proposals in the ED relating to expected loss require the application of management judgment to a much greater extent than under the incurred loss model in IAS 39. Moreover, while we consider that the transfer criteria may vary depending on the credit risk management, the way an entity applies these accounting principles in practice and manages its credit risk must be disclosed to enhance comparability between institutions.

However, we regret the lack of clarity regarding the way the disclosure requirements of the ED will interact with the current final disclosures related to credit risk in IFRS 7.

The disclosures proposed in the ED seem very extensive. More precisely, we are concerned by the following disclosure requirements:

- par. 35 requires a roll-forward of the gross amounts by assets (disaggregated by class according to par. 34), which would include not only relevant information related movements in credit allowances but would also include purchases, sales, etc. The key allowance information related to adjustments and changes will now be included in what could become an information overloaded heavy table, illustrated in IE 72. We suggest that the IASB maintains only a simplified roll-forward of the credit related allowance movements and separate general information on the migration of the gross amount of assets between stages 1 and 2 .
- Par. 39 and 42: the explanation of the estimation process for the credit loss amounts and changes in credit risk should remain a principles-based descriptive disclosure of the judgmental process. It should not be an explanation of the mechanics or formulas used. Additionally, the requirement of 39 (d) (ii) of the discount rate (percentage) used would be meaningless when the effective interest rate is used for individual bonds on an instrument by instrument basis.
- Par 40a: explanation of any (emphasis added) changes in the quality of collateral as a result of deterioration" seems excessive. It is usual for the value of collateral to fluctuate and such fluctuations may be directionally different for different portfolios and different types of collateral. It is unclear why such granular information on collateral is considered to be useful in all cases. Collateral may be one of many aspects of credit quality of a financial instrument and we believe that it would be more helpful to focus on the key aspects of the credit quality of a particular financial instrument, or a portfolio of financial instruments, rather than applying prescriptive requirements specifically for collateral irrespective of its significance. The EDTF report contains a helpful recommendation in this area (recommendation Nb 30): "Provide qualitative information on credit risk mitigation, including collateral held for all sources of

credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral."

- Par. 41 specifically singles out the disclosure of positive or negative effects caused by a portfolio or geographical area. The IASB should clarify that this information is useful only if this factor is important and is related to a particularly noticeable event.
- Par. 44: we consider that the requirement of par 44 (illustrated by IE 73) should be based on the main relevant indicators effectively used by the entity for determining the loss allowances. For example, the internal grade may not be a relevant indicator for consumer loans since delinquency is usually used to assess their credit risk. In the same manner, providing the gross carrying amount by associated loss allowances stages with a split by external rating grades (as suggested by IE73) would not be relevant when the determination of loss allowances is mainly built on internal rating grades. Moreover, there is no constant equivalence between internal and external ratings in practice.

Additional disclosure requirements should be considered concerning FVOCI instruments. Indeed the model proposes that at the acquisition date, a 12-month expected credit loss charge is recognised in the income statement with a corresponding offsetting entry in OCI. The impairment has therefore no effect on total equity. It may be important for users to understand how impairment charges according to the ED may differ to the assessment of the credit risk (including unexpected credit risk) included in fair values. Therefore, the change in OCI attributable to stage 1 and/or stage 2 provisioning should be disclosed separately from those attributable to fair value changes.

***Question 8***

*Do you agree with the proposed treatment of financial assets on which contractual cash flows are modified, and do you believe that it provides useful information? If not, why not and what alternative would you prefer?*

We agree with the proposed treatment of financial assets on which contractual cash flows are modified.

Nevertheless, as suggested in our comment letter to the IFRS IC's Tentative Decision on accounting for different aspects of restructuring Greek government bonds, we recommend to the IASB to address the accounting for debt restructuring and modification for debt holders (e.g. when does it result in derecognition?).

***Question 9***

*(a) Do you agree with the proposals on the application of the general model to loan commitment and financial guarantee contracts? Why or why not? If not, what approach would you prefer?*

*(b) Do you foresee any significant operational challenges that may arise from the proposal to present expected credit losses on financial guarantee contracts or loan commitments as a provision in the statement of financial position? If yes,please explain.*

We agree with the proposals for loan commitment and financial guarantee contracts.

***Question 10***

*(a) Do you agree with the proposed simplified approach for trade receivables and lease receivables? Why or why not? If not, what changes do you recommend and why?*

*(b) Do you agree with the proposed amendments to the measurement on initial recognition of trade receivables with no significant financing component? If not, why not and what would you propose instead?*

(a) As stated in our answer to Q3a, the ANC considers that the cost of implementing an expected loss model for corporate entities, even under a simplified model, may outweigh the benefits due to the short maturity of these assets. Therefore, we reiterate that the proposed approach, even simplified, is not appropriate for short term trade receivables.

Regarding trade receivables with a significant financing component, an option to apply a simplified approach is welcome.

(b) We agree that trade receivables with no significant financing component should be recognised at the transaction price which is consistent with the current practice of corporate entities and in line with our comment on the ED Revenue from contract with customers

***Question 11***

*Do you agree with the proposals for financial assets that are credit-impaired on initial recognition? Why or why not? If not, what approach would you prefer?*

We agree with the IASB’s proposal which is consistent with current IAS 39 requirements (i.e.AG5).

***Question 12***

*(a) What lead time would you require to implement the proposed requirements? Please explain the assumptions that you have used in making this assessment. As a consequence, what do you believe is an appropriate mandatory effective date for IFRS 9? Please explain.*

*(b) Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?*

*(c) Do you agree with the proposed relief from restating comparative information on transition? If not, why?*

(a) As already expressed in our previous comment letters, the ANC considers that a 3-year time period is needed for implementing a new impairment method. The current mandatory effective date of IFRS 9 should therefore be postponed after 2015.

(b) We welcome the IASB's intention to introduce an exception from retrospective application (C2a). However, consistently with our comments on the transfer condition between stages 1 and 2 (see our answer to Q5), we disagree with the requirement that the "provision shall be determined only on the basis of whether the credit risk is low at each reporting date." Applying par. C2a as it is stated in the ED would particularly penalise financial entities holding, on the date of first application, a significant amount of non investment grade bonds or significant loans to SMEs or retail customers with a higher risk profile. This approach will lead to applying a model very close to the FASB model on the whole asset portfolio at the transition date.
Therefore, we consider that the assessment at the date of initial application and at each reporting date should be based on the appropriate level (portfolio by portfolio) determined as described in our answer to Q5.

(c) We agree with the proposed relief from restating comparative information which will reduce the operational cost of implementation of the new model (which will remain nevertheless very significant, especially for financial institution).

***Question 13***

*Do you agree with the IASB's assessment of the effects of the proposals? Why or why not?*

At this stage of the process, most French entities have not achieved a detailed impact analysis of the IASB's proposal on expected credit losses. Therefore, The ANC is not able to confirm the IASB's assessment of the effects of the proposals yet.

However, the first main findings received from French entities are as follows:

- the IASB's model would improve the timely recognition of credit risk and related loss compared to IAS 39;

- although the operationality of the model has been improved compared to the 2009 ED, the implementation is expected as highly burdensome, especially regarding the tracking requirements and some of the disclosures;

- the cost of implementation of the model may outweigh the benefits for short term receivables held by corporate entities;

- some questions remain about the consistency of some requirements of the model (e.g. the investment grade-implied threshold) with the credit risk management practices and the potential pro-cyclicality of the model (given the point-in-time assessment of expected loss for instance).

Regarding this last question, we note that it is extremely difficult and uncertain to assess in which phase of the economic cycle the entity granting a loan is. Therefore, it would be more reliable to estimate expected losses using "through-the-cycle" parameters adjusted to take into account the economic environment when this is relevant by using professional judgment.