The Chairman,
The IASB,
30 Cannon Street,
London EC4M 6XH

Paris, x July 2013

Dear Mr. Hoogervorst,

Ref: ED/2013/3 Financial Instruments: Expected Credit Losses

We are pleased to respond to the Invitation to Comment on ED/2013/3 Financial Instruments: Expected Credit Losses (the ED).

Although we are in general content with the proposals of the ED, we have the following principal concerns:

1. We think that even the "simplified approach" is too complex and onerous for mandatory application to trade receivables. We think that the current practice should be allowed to continue, and that this should replace the simplified approach as an accounting policy option for trade receivables with a financing element and lease receivables. In our view, these types of financial asset were not at the root of the financial crisis that motivated this project and should not be contemplated in its scope.

2. We think there are some areas in the proposed guidance which could result in the identification of "bright lines" which could trigger automatic accounting outcomes. These areas include, for example, the identification of a significant increase in credit risk and what is meant by low credit risk. We do not believe that it was the Board's intention to establish precise triggers, and think it is important that the drafting make it clear that the use of judgement is imperative in all areas of the application of the future standard.

3. The level of detailed required in disclosures is excessive. We think it is preferable to establish principles for the disclosure and require management to use its judgement about the level of detail to be provided.

The above concerns are discussed in more detail in the appendix, where we provide responses to the specific questions posed in the ED. Please do not hesitate to contact us if you require any further information or explanation.

Yours sincerely,

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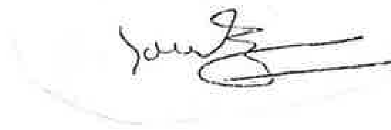
Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs



APPENDIX

Question 1 – Objective of an expected credit loss impairment model

(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) Although we have some conceptual concerns regarding the initial recognition of a portion of expected loss (as discussed in the response to Question 2), we support these objectives. However, we think that in order to reflect the economic link between the pricing of financial instruments and the credit quality at initial recognition, the impact of such a portion of expected losses recognised initially should be limited. Accordingly, the 12 month expected loss proposed in the ED should remain the maximum loss allowance at inception.

(b) We agree that the approach consisting in the recognition of lifetime expected losses at initial recognition of the asset does not represent the underlying economics of the financial instruments, in that it ignores the effect and purpose of the credit risk premium included in the interest rate charged. We do not, therefore, support the FASB proposals in this regard.

Question 2 – The main proposals in the Exposure Draft

(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) While we agree with the Alternative View of Mr. S. Cooper that the 12-month expected loss allowance does not have a solid conceptual basis and may be overly conservative rather than neutral, and we are also uncomfortable with the justification of recognising a day-1 loss on assets whose interest rate is intended to compensate for the initial level of expected losses, we think that the proposed approach of the ED represents a reasonable pragmatic balance

between the faithful representation of the economics of the transaction and the cost of applying the model.

(b) We think that the proposals of the ED may provide a better balance than the proposals of the 2009 ED and the SD, particularly for those financial entities which currently provide a 12-month expected loss allowance for prudential purposes. In respect of the latter, we wonder whether any of the prudential loss models that the IASB has examined could provide an acceptable alternative approach, or proxy, which would further enhance the balance between faithful representation and cost.

(c) We do not think that the recognition of an initial loss allowance equal to the lifetime expected losses provides a more faithful representation of the economics of the transactions and therefore that method does not achieve a better balance than the proposals in the ED.

Question 3 – Scope

(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?

We disagree with the inclusion of "normal" trade receivables (that is, those that do not constitute a financing transaction in accordance with the future Revenue standard) in the scope of this ED. While we agree that they are financial assets, we think that continued application of the current practice (which includes due regard for paragraph 4.40 of the Conceptual Framework) for such assets would represent a better balance between the cost of implementation and maintenance on the one hand, and the usefulness and timeliness of the information and faithful representation on the other. We do not believe that it is this type of asset that was considered to have contributed significantly to the financial crisis in reaction to which this and the FASB project have been developed, and we are not convinced of the utility of including these assets in this model. We discuss this further in our response to Question 10.

We agree with the inclusion of financial assets measured at FVOCI in the scope.

Question 4 – 12 month expected credit losses

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

We think that the 12-month expected loss measure can be made operational by financial institutions. It may be helpful for banks which already apply a prudential model close to the proposed approach to be able to use the prudential model as a proxy. However, other types of entity may experience difficulty in collecting the relevant data and applying this approach.

Question 5 – Assessing when an entity shall recognise lifetime expected credit losses

(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) We agree that lifetime expected credit losses should be recognised when there has been a significant increase in credit risk since initial recognition.

(b) In our view the assessment of when it is necessary to recognise lifetime expected losses should be based on principles and determined by the use of judgement. We think that the principle enunciated in paragraph 5 of the ED, when taken together with the guidance provided in paragraphs 6 to 10 and the further Application guidance provided in paragraphs B5 to B24, is sufficient. We think it is crucial that the entity's management apply its judgement to the facts and circumstances relevant to its business and assets and bear responsibility for the assessment made. We are concerned that any further guidance or definition might lead to the risk that judgement will be eliminated from the process of assessment, leading to inappropriate accounting results.

Some of our members have noted that certain firms of auditors have already begun to create their own interpretations of the meaning of some of the terms in the ED. We think that this trend will lead to the establishment of "bright lines" and the consequent risk for the application of judgement. As examples of the development of inflexible interpretations we can cite the following:

- "black or white" interpretation of what is meant by "investment grade" and what constitutes "significant deterioration". We would recommend that the pre-eminence of the use judgement in the assessment of all the relevant facts and circumstances be clearly emphasised in the text of the future standard.

- In addition, in order to avoid a mechanistic application of the principles based on bright lines, entities should be allowed a certain degree of flexibility in, for example, determining when deterioration has reached the point when lifetime losses should be provided for. Paragraph 8 as currently drafted may be interpreted as requiring a quantitative comparison of probability of default at inception and at the reporting date for each individual asset, and this will be neither feasible for many entities nor reflective of the credit risk management approach for some assets. We think that the mechanistic or

automatic application of bright line triggers could result in movements in provisions which could be difficult to justify and explain because of their disconnection from economic reality. Therefore, it should be clarified that different approaches, including those based on qualitative information as acknowledged in B21, for instance, could be used to assess credit deterioration.

(c) We agree that the assessment should consider only changes in the probability of default occurring.

(d) We agree with the operational simplifications proposed in the standard with the provisos stated above about the need to avoid the establishment of "bright-line" triggers.

(e) We agree the requirement for the re-establishment of a 12 month loss allowance when the criteria of paragraph 5 are no longer met.

Question 6 – Interest revenue

(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 (i.e. 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?

We agree with these proposals.

Question 7 – Disclosure

(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 do not agree with the proposed disclosure requirements. Although we think that the objective of such disclosures as stated in paragraph 28 is reasonable, we think that the detailed requirements laid out in the following paragraphs are onerous, particularly the quantitative disclosures for non-financial entities which operate over many jurisdictions.

We think that the Board should transfer the proposed disclosure requirements from IFRS 9 and locate them in IFRS 7. In doing this, a comprehensive review of all such requirements should be performed in order to ensure that there is no duplication or superfluous information required.

Banks and other financial institutions are currently required to provide a large amount of disclosure, much of which has the same objective and similar, but not identical, form to the proposals of the ED. The differences are sufficiently important to make the detailed requirements of the ED onerous to produce and potentially confusing in comparison to the regulatory requirements. We think it would be more efficient and effective for the ED to provide the objectives for the disclosure and the entities to judge what should be provided to meet that objective. We provide the following examples of disclosure requirements which we think should be reconsidered:

- The requirements of paragraph 35 as illustrated by examples 12 and 13 are, in our view, too prescriptive as regards the level of disaggregation of information required. This would be potentially very costly to implement and there is no assurance of its usefulness (for example, reconciliation of the gross carrying amounts, mapping to external ratings by retail sub portfolios…).

- Paragraphs 39 and 42 require detailed quantitative information which we believe will be far too onerous to provide. These should be replaced by principles requiring qualitative disclosure and the use of management's judgement about the level of quantitive data to provide.

- Paragraph 41 should not impose the specific categories of loss required to be disclosed but rather pose the principle of providing a relevant analysis of sources of credit loss, with the actual categorization to be made through use of judgement.

Question 8 – Application of the model to assets that have been modified but not derecognised

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 proposals in respect of financial assets which have been modified but not derecognised.

Question 9 – Application of the model to loan commitments and financial guarantee contracts

(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.

(a) We agree with the application of the general model to loan commitments and financial guarantee contracts.

(b) We have not identified any specific challenges at present.

Question 10 – Exceptions to the general model
(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 indicated in our response to question 3 above, we think that normal short-term trade receivables with no financing component should be excluded entirely from the scope of the ED entirely on the grounds that the benefits of their being included in the scope of the ED are unlikely to justify the cost of implementing and applying even the "Simplified approach" of the ED. For this purpose we would describe such assets as those receivables generated by the entity's normal revenue-earning activities which have a credit period of less than one year or have credit terms which are in line with the normal credit terms for trade receivables in each jurisdiction

For these receivables we would suggest that the retention of the current practice, which is more practical and less burdensome than the simplified approach proposed. We think that it is difficult and thus costly for non-financial entities to gather the data necessary to establish the statistical database and the related process documentation which will all be required to implement, justify and maintain the provision matrices or other similar simplified approaches to provisioning. In particular, we think that the gathering of statistics and their interpretation for the setting-up of an allowance for depreciation on day 1 in the life-cycle of a receivable will be particularly burdensome and the results potentially arbitrary.

If the Board nonetheless intends to continue to include the trade receivables within the scope of the ED, then we agree that the simplified approach of the ED for Trade receivables is preferable to the full general model. We agree that the tracking of Trade receivables for significant deterioration since inception is onerous. We also think that the full model is of little relevance or use in respect of trade receivables since the losses related to such receivables will generally become apparent very quickly and, given the usual economic life of the receivables, in most cases the 12-month expected losses will be the same as the lifetime expected losses.

We agree with the proposal to allow an accounting policy election for the use of the simplified approach for trade receivables which constitute a financing transaction and lease receivables. The simplified approach available for this option should be the same as the approach used for normal trade recivables: <u>either</u> the current practice, which we think is preferable, <u>or</u> the "simplified approach" of the ED, if the Board retains it. We think three models would be potentially confusing.

(b) We agree that Trade receivables with no financing component should be measured at the transaction price at initial recognition. We think it is important to maintain consistency between the revenue accounted for under the future Revenue standard and the value of the gross receivable in the balance sheet. Any allowance for depreciation should be reflected in a separate provision, albeit netted off on the face of the balance sheet.

For the avoidance of doubt in the absence of the definitive Revenue Recognition standard, we disagree with the use of the fair value as the gross book value of the asset before provision for impairment on the further grounds that the notion of fair value includes elements other than credit risk which we think have no place in the measurement of a normal receivable.

Question 11 – Financial assets that are credit-impaired on initial recognition
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 proposals for the treatment of purchased or originated financial assets that are credit-impaired on initial recognition.

Question 12 – Effective date and transition

(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) We think that it is preferable to maintain alignment in the effective dates of the future Revenue standard, the future insurance standard, the aspects of IFRS 9 dealt with in the ED and the other parts of IFRS 9 in order to avoid any risk of having to adjust receivable values twice.
As a corollary to this, we support the draft recommendation by EFRAG that there should be a minimum period of three years between the publication of the future expected credit losses standard and its effective date. We think that such a period is reasonable in view of the need for entities to establish a reliable database for credit losses and to modify systems and procedures. In many cases the systems to be modified will include revenue and receivables systems.

(b) In respect of the proposed transition requirements we would urge the Board to ensure that there is as much consistency as possible between the transition requirements of the various parts of IFRS 9. This will facilitate the understanding of the scope and effects of the changes by both preparers and users.

(c) We agree with the proposed relief from restating comparative information.

Question 13 – Effects analysis
Do you agree with the IASB's assessment of the effects of the proposals? Why or why not?

We believe that the effort required to implement the proposals of the ED could be significantly greater than the Board expects, not only in the initial areas of the collection of statistics and the modification of systems and processes referred to above, but also in the disclosure requirements on a continual basis in the future, if these are maintained at the level of detail proposed by the ED

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