Submission of comments from Finance Finland concerning EFRAG draft Comment letter on FICE Exposure Draft

Finance Finland (in Finnish Finanssiala), a representative of the Finnish financial sector, welcomes the opportunity to comment your draft comment letter of IASB's Exposure Draft Financial Instruments with Characteristics of Equity – proposed amendments to IAS 32, IFRS 7 and IAS 1 (ED).

Our banking members welcome the IASB's efforts to amend IAS 32 by providing additional guidance on the classification of financial liabilities and equity instruments. However, there is also a concern that some proposed wording may fail to explain the intention of giving clearance to the classification. Our members also express concern on the new extensive disclosure requirements introduced in the ED. We have focused on the following questions in the ED; questions 4, 7 and 9.

1 Question 4: Contingent settlement provisions:

The fundamental principle of having the effective interest on liabilities recognised in the income statement and the return on equity instruments recognised in equity is sound, understood by users and could be applied also for these types of instruments. However, we do not agree with the proposal (a) that "some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components", because it is expected to create a significant accounting mismatch.

More specifically in relation to instruments with contingent settlement provisions (regulatory change clauses) that trigger conversion into a variable number of an institutions' own shares, we believe such instruments could be seen as financial liabilities in full and that interest payments could therefore continue to be recognised in the income statement. Furthermore, should the accounting for compound financial instruments with liability and equity components be clarified so that discretionary interest payments must be recognised in equity, the banks that today account for such interest payments in the income statement foresee issues primarily with applying hedge accounting under IAS 39 and IFRS 9. Interest rate hedge accounting is not allowed for instruments, which are recognised in equity. Financial institutions that manage the interest rate risk of those instruments will then have an artificial volatility in P&L.

2 Question 7: Disclosure

It is acknowledged that the users of financial statements would like to understand the complex instruments issued by the banks, but we think that the scope of the disclosures which is suggested in the ED should be narrowed. Now the scope of the disclosures is too broad, and it covers all types of issued financial instruments e.g. deposits.

IFRS 7 B6 allows for cross-referencing to other reports for disclosures in IFRS 7. Pillar 3 disclosure requirements for banks already include some of the disclosures required by the ED. To avoid reporting burden and allowing the possibility to cross

reference already provided information also these disclosures (par. 30A-30J) should be included in existing IFRS 7 B6.

IFRS standards are based on a going concern principle, not on liquidation or resolution. Some of the disclosure information which IASB is proposing in the ED is contrary to that principle.

3 Question 9: Transition

The full retrospective approach can be considered a complex exercise, as some financial instruments have long maturities. The benefits outweighing the costs compared to a transition on the effective date can’t be seen, especially if hedge accounting of the interest rate risk, following the final standard, is no longer possible for compound financial instruments with liability and equity components where payments at the discretion of the issuer are recognised in equity.

FINANCE FINLAND

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