



6 May 2013

International Accounting Standards Board  
1<sup>st</sup> Floor 30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**RESPONSE TO EXPOSURE DRAFT – CLASSIFICATION AND MEASUREMENT:  
LIMITED AMENDMENTS TO IFRS 9**

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in November 2012.

We are generally agreeable to the inclusion of the third measurement category for qualifying debt instruments and view this as an improvement to IFRS 9 *Financial Instrument* as this will more fairly reflect the economic substance of such financial assets. However, there are concerns on the inflexibility of the use of the third measurement category since it is a mandatory requirement for all qualifying debt instruments to be measured using fair value through other comprehensive income (OCI).

Our specific comments on the proposed amendments in the ED are as follows:

**Contractual cash flow characteristics assessment: a modified economic relationship between principal and consideration for the time value of money and the credit risk**

**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?**

We agree.

**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?**

While preparers should be expected to apply judgment and materiality to determine if a financial asset with a modified economic relationship between principal and consideration for the time value of money and credit risk still meets the criteria, we are of the view that there should be more illustrations or guidance on what is considered as “more than insignificantly different” from the benchmark cash flows.

**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?**

We are of the view that this proposed amendment will assist the Board in achieving the objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features. However, there may still be other financial assets that do not pass the contractual cash flow assessment such as fixed income mutual funds and cumulative preference shares but these fixed income instruments do have cash flows that should be considered solely payments of principal and interest. Therefore the Board should consider providing more implementation guidance for such instruments which do not have such contractual terms but in substance, qualify under this new model.

**Business model assessment: the ‘fair value through other comprehensive income’ measurement category for financial assets that contain contractual cash flows that are solely payments of principal and interest**

**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?**

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

We agree.

**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?**

We believe that more implementation guidance is required to achieve a more consistent approach in interpreting the standard. For example, paragraph B4.1.3 mentioned about sales that can be infrequent (even if significant) or insignificant both individually and in aggregate (even if frequent). More illustrative examples should be provided for the interpretation of infrequent and insignificant sales.

**Extension of fair value option to financial assets measured at fair value through other comprehensive income for elimination of accounting mismatch**

**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?**

We agree. In addition, the Board should consider the potential impact of the future developments in IFRS 4 *Insurance Contracts* so as to address any potential mismatch between financial assets and insurance contract liabilities.

**Presentation of 'own credit' gains or losses on financial liabilities**

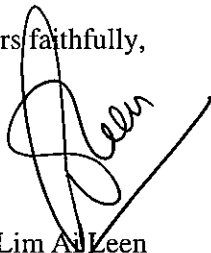
**Question 8:**

**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?**

We agree because it is otherwise counter intuitive to recognize a gain in profit or loss due to deterioration of the entity's own credit risk.

Should you require any further clarification, please feel free to contact Ms Jezz Chew, Manager, Technical Standards Development and Advisory, from ICPAS via email at [jezz.chew@icpas.org.sg](mailto:jezz.chew@icpas.org.sg).

Yours faithfully,



Ms Lim Ai Leen  
Executive Director  
Technical Knowledge Centre and Quality Assurance