Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2009:17

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: Discussion Paper – DP/2009/2 – Credit Risk in Liability Measurement

This is the Swedish Financial Reporting Board´s response to your invitation to comment on the Discussion Paper (DP) regarding Credit Risk in Liability Measurement. Our response only addresses financial liabilities as defined in IAS 39.

Our view is as follows:

- We believe that cost is normally the right measurement basis for liabilities. The reason for that is that cost represents the actual outflow of financial resources that actually will occur if the entity is fulfilling its contractual liabilities.

- The current value of the credit risk component should be used if the business intent with a single liability is to actively buy and sell own issued debt instruments. The reason for that is that the current value represents the actual cash flows that might be expected to be realised for those liabilities. This occurs when the entity has a trading liabilites.

The actual consideration received for liabilities and given for assets normally should be used for initial recognition since we believe that this amount is superior in describing the actual values that have been transferred between the two counterparts. This implies that credit risk should be included in initial recognition.

Since the credit risk component initially has been included in the initial measurement, this credit risk component also has to be included in subsequent measurement. As stated in previous comment letters we believe that the subsequent measurement depends on the business intent of the entity. The aim should be to always use a measurement model that have the highest quality in assisting users of the financial statements in evaluating past performance and to assist in predicting future performance.

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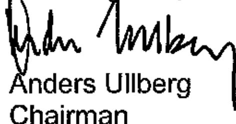
The most difficult part of the principles above is to choose the right measurement basis for the credit risk component in those circumstances when the entity is actively trading in its own debt instruments, but the entity still uses the liabilities for funding of assets that are managed with intent of holding those assets until final maturity. In those circumstances profit or losses are created when buying back single liabilities, but if the entity has to issue a new debt instrument at market prices to close an open interest rate risk position, the net present value of the two transactions taken together is close to zero. In those circumstances it is questionable if the users of the financial statements are best served if the entity takes the gain or loss on the first transaction immediately to profit or loss. Instead the Board considers that the user is best served if the entity amortises the initial profit or loss during the remaining time to maturity for the assets being hedged by the liability. Presently IAS 39 requires an amortisation for formally documented hedging relationships, but requires an immediate recognition for economic hedges (i.e. hedges for risk management purposes that are not formally documented as hedging relationships according to IFRS).

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to:carl-eric.bohlin@radetforfinansiellrapportering.se.

Stockholm, September 14, 2009

Kind Regards,



Anders Ullberg
Chairman