ICAEW THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

31 March 2009

Our ref: ICAEW Rep 41/09

Your ref:

Paul Ebling
EFRAG Supervisory Board
Technical Expert Group
EFRAG
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By email: commentletter@efrag.org

Dear Paul

FINANCIAL CRISIS ADVISORY GROUP'S REQUEST FOR INPUT

The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on EFRAG's draft comment letter on the *Financial Crisis Advisory Group's Request for Input.*

In general, we support the line taken in the draft EFRAG response, in particular on:

- the importance of being open-minded in learning the lessons of the current crisis;
- the different information requirements of investors and regulators;
- the need to keep any additional loan 'provisions' required by regulators out of the income statement;
- the need to maintain a mixed attributes model in accounting for financial instruments; and
- the importance of some measure of due process, even in an emergency.

We do however have some major concerns about some of the assumptions made, and language used. These concerns are explained below.

The need for fundamental changes

While we fully accept the need to be open-minded in learning the lessons of the current crisis, we do not see that financial reporting has - credibly - been identified so far as one of its significant causes. We would therefore suggest a more cautious wording of the draft where a willingness is expressed to make fundamental changes (page 1) and to leave no long-standing practice unchallenged (page 4, paragraph 5a).

Our concern here is not so much that we disagree with the principles expressed - as principles they are fine - but that in practice, people tend not to use such expressions unless they have fundamental changes in mind. At the moment, we do not see the need for such changes, so would prefer EFRAG to be more cautious in expressing a willingness to adopt them. At the moment, the draft seems to be akin to signing a blank cheque.

Pro-cyclicality and counter-cyclicality

We also accept that there is a case that existing reporting practices are pro-cyclical, and that this needs to be investigated. However, it should also be mentioned that there is a case that fair value loss recognition encouraged companies that adopted it for management purposes to take early remedial action once the downturn began. To that extent, existing practices may in fact be counter-cyclical.

Fair value

We question whether, even when markets are disrupted, market inputs should be disregarded when fair value is being estimated (paragraph 9a), and also whether value in use is a preferable alternative to fair value where fair value is used at present (paragraph 9b).

We are concerned about the comments about 'loss of trust' in reported fair values at paragraph 18. The argument here seems to be that the loss of trust has arisen because reported fair values have been significantly lower than managers' expected value estimates for the assets in question. Our observation is that any market scepticism has usually arisen for the opposite reason, that investors have suspected that reported fair values have sometimes been too optimistic.

In addition, we do not support the call at paragraph 19 for a fundamental debate and we question the sceptical tone adopted here towards market-based exit values in fair valuing financial instruments. Clearly, the less liquid a market is, the less useful market-based values are. But it is not clear that there are preferable alternatives for those financial instruments where fair value measurements are currently required.

General

Finally, the Advisory Group asks for comments to be as succinct as possible. The draft EFRAG comments already run to 13 pages and may need to be extended to pick up further points from EFRAG's constituents. We would therefore suggest that EFRAG reviews its existing draft to see if anything could be edited out. The lengthy extracts from EFRAG's response to *Reducing Complexity in Reporting Financial Instruments*, while excellent in themselves, could be a candidate here.

Please let me know if you require any further information.

Yours sincerely

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