THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

15 January 2009

Our ref: ICAEW Rep 06/09

Your ref:

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Uploaded and by email

Dear Sirs

IFRS 7- INVESTMENTS IN DEBT INSTRUMENTS

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the above exposure draft.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Nigel Sleigh-Johnson

Dr NV Sleigh-Johnson
Head of Financial Reporting
T +44 (0)20 7920 8793
F +44 (0)20 7638 6009
E nigel.sleigh-johnson@icaew.com

ICAEW Representation

ICAEW REP 06/09

IFRS 7- INVESTMENTS IN DEBT INSTRUMENTS

Memorandum of comment submitted in January 2009 by The Institute of Chartered Accountants in England and Wales, in response to the Exposure Draft *Investments in Debt Instruments - Proposed amendments to IFRS 7* issued by the IASB in December 2008

Contents	**Paragraph**		

Chartered Accountants' Hall
PO Box 433 Moorgate Place London EC2P 2BJ
www.icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX DX 877 London/City

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Exposure Draft *Investments in Debt Instruments - Proposed amendments to IFRS 7* published by the International Accounting Standards Board (IASB) in December 2008.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms.

MAJOR POINTS

5. While we understand the IASB's desire to act quickly in this instance, we do not support standards being issued that effectively require retrospective application of new requirements by preparers. We do not, moreover, regard the proposed changes as truly urgent, and note that they would require disclosure on a 'what if' basis - which some preparers believe would be misleading - and do not appear to provide new information requested by users. If the IASB decides to proceed with the proposed changes, we suggest that the effective date should allow a reasonable period for implementation with permitted early adoption. This is particularly important since the amendment applies not just to banks but to all types of entities, including entities which are not financial institutions.

6. We note that the basis for conclusion points out that those taking part in the recent round-table discussions agreed that disaggregated information about impairment losses on available-for-sale (AFS) debt instruments would be useful for: (i) the incurred loss portion; and (ii) the remainder of the fair value charge. We concur with this. We are disappointed that the proposed disclosure does not directly provide the information suggested by the round-table participants.

7. We do not support a requirement to provide the pre-tax profit or loss as if all investments in debt securities had been classified as financial assets at fair value through profit or loss. There is already a requirement to disclose the period end fair values for all financial instruments and it is not clear how a

requirement to disclose the pre-tax profit or loss on a sub-set of debt securities provides useful information. We are concerned the difficulties and cost to obtain the information outweigh the potential benefits to users.

8. We further note an additional complication in terms of the required disclosures for debt instruments measured at amortised cost. Such instrument may be in a hedging relationship and there could be knock on implications for the hedging arrangements if the instruments were accounted for at fair value through profit or loss, which will not be captured in the disclosure. Since the financial instruments are not managed on a fair value basis we question the usefulness of disclosing the results as if they were. We are not aware of any demand for this information and are concerned that it could be misleading.

9. The Board recognises that it could not require the disclosure of amortised cost based information for instruments classified at fair value through income because (a) entities are not required to maintain cost-based information for these instruments, (b) the proposed disclosures might be unduly onerous and (c) the proposed effective date might not allow entities sufficient time to generate the required information. We believe these arguments equally apply to available for sale securities and the requirement to provide amortised cost information, as well as to the requirement to generate fair value information for instruments carried at amortised cost. Entities can meet the existing IFRS 7 requirement to disclose fair value without tracking additions and disposals on a fair value basis. There are also the possible impacts of reversing adjustment for existing hedging relationships and the effect of day 1 profits or losses, which would have to be considered to determine what the profit or loss would have been if the instruments had been carried at fair value. Therefore we do not think that the information is likely to be readily available for many entities, resulting in the requirement being unduly onerous, particularly in relation to its usefulness, and raising significant difficulties for entities to comply. In addition, it effectively requires retrospective application with very little notice.

10. We are also concerned that the proposals are not clear. As an example the term “debt instrument” is not defined in the IFRS lexicon and we are concerned this may result in inconsistent application. Many companies have trade receivables. Are these “investments in debt instruments”? In addition, the pre-tax profit or loss being disclosed is not clear. Is it the pre-tax profit or loss for the whole entity adjusted for the different treatments of debt instruments or is it just the pre-tax profit or loss for the debt instruments only. The latter would be more difficult to determine unless entities are able to separately identify all profit and loss movements relating to debt instruments, presumably including those that are measured at fair value through profit or loss.

11. We agree that the IASB should address impairment issues more broadly in the short term. While additional disclosure could be useful in some instances for this year’s reporting season, disclosure alone cannot address concerns over recognition, measurement and presentation.

SPECIFIC QUESTIONS

Question 1
The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.
Do you agree with that proposal? If not, why? What would you propose instead, and why?

12. As set out in paragraphs 5-11 above, we do not agree with the proposal.

13. We are concerned that the investment in resources that will be required by preparers and the cost of gathering the information may significantly out-weigh any potential benefits. Aside from the significant investment, we also note that it may be virtually impossible for preparers to gather the required disclosure data for debt instruments that entities have already entered into at the effective date of this proposal. Preparers may find it difficult to account for additions and disposals, day 1 dealing profits or hedge accounting adjustment based on a different measurement basis.

14. Considering the information need identified by the round-table participants, we rather suggest that the disclosure suggested by the round-tables, which is an analysis of AFS impairment into that relating to the incurred loss (calculated on an amortised cost basis) and the remainder of the fair value movement, would meet the information need identified and could be produced cost-effectively.

Question 2
The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions. Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

15. We do not agree with the proposed disclosure. However, should the IASB decide to proceed with introducing these new disclosures, given the difficulties we envisage in entities being able to provide the information about what the pre-tax profit or loss would have been under different classification assumptions, an indication of the types of reconciling items in the final standard may be helpful. For example, it should be clarified whether hedging adjustments are to be reversed. We suggest that the fair value element of the impairment of AFS may be a useful reconciling item for the amortised cost profit or loss in that it would partly meet the disclosure need identified at the round-tables. Some guidance on the items to be included in a reconciliation would also support a consistent approach amongst different entities.

Question 3
The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the

measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.
Do you agree with that proposal? If not, why? What would you propose instead, and why?

16. We do not agree with the proposed disclosure. It does not meet the information need identified by the round-table as the disclosure is not sufficiently granular to identify impaired AFS securities. It would result in duplication with existing IFRS 7 requirements so it is not clear that much additional information is being disclosed. The requirements themselves are also not entirely clear. For example, is it expected that amortised cost is the same as the carrying amount of amortised cost loans and receivables or is the expectation that any fair value hedge accounting affects are not included in the amortised cost column?

Question 4
The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss. Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

17. Yes. We agree that it is not practically possible to require amortised cost information for financial instruments designated at fair value through profit or loss.

Question 5
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

18. For the reasons set out above, we do not agree with the proposed effective date. Furthermore, some entities with December year ends will publish their 2008 financial statements before the amendments are finalised, and will later need to restate this information. If suitable disclosure requirements can be developed that meet the information need identified at the round-tables, the effective date should not apply on a retrospective basis and should allow a reasonable period for implementation with permitted early adoption.

Question 6
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

19. We agree that comparatives should not be required in the first year of implementation of the requirements proposed.

Email: nigel.sleigh-johnson@icaew.com