THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

17 April 2009

Our ref: ICAEW Rep 49/09

Your ref:

Mr. Stig Enevoldsen
Chairman
Technical Expert Group
EFRAG
Avenue des Arts 13-14
B-1000 BRUXELLES

By email: commentletter@efrag.org

Dear Stig

REQUEST FOR VIEWS ON PROPOSED FASB AMENDMENTS

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to comment on EFRAG's draft comment letter, published in April 2009, on the International Accounting Standards Board's *Request for views* on 'Proposed FASB Amendments on Fair Value Measurement' and 'Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities', published in March 2009.

I can confirm that we are broadly supportive of the line taken in EFRAG's draft letter. Our response to the IASB, which gives further explanations of our views, is attached.

Please contact me if you would like to discuss any of the points raised in this response.

Yours sincerely

Desmond Wright
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17 April 2009

Our ref: ICAEW Rep 47/09

Your ref:

Sir David Tweedie
The International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

By email: iasb@iasb.org

Dear David

REQUEST FOR VIEWS ON PROPOSED FASB AMENDMENTS

The Institute of Chartered Accountants in England and Wales is pleased to respond to your *Request for views* on 'Proposed FASB Amendments on Fair Value Measurement' and 'Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities', published in March 2009.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 47/09

REQUEST FOR VIEWS ON PROPOSED FASB AMENDMENTS

Memorandum of comment submitted in April 2009 by The Institute of Chartered Accountants in England and Wales, in response to the International Accounting Standards Board's (IASB's) *Request for views* on 'Proposed FASB Amendments on Fair Value Measurement' and 'Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities', published in March 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to respond to the International Accounting Standards Board's (IASB's) *Request for views* on 'Proposed FASB Amendments on Fair Value Measurement' and 'Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities', published in March 2009.

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 130,000 members in more than 140 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 ISSUES

What actions should the IASB take?

5. The unilateral actions taken by the FASB are clearly detrimental to the agreed strategy of jointly developing a single set of high-quality accounting standards. We feel obliged to question the status and validity of the Memorandum of Understanding (MoU) against such a backdrop. We are concerned that rushed actions by one Board in response to political pressures which are then used to put pressure on the other Board will lead to a downward spiral in the overall quality of standards to the lowest common denominator. We strongly urge the IASB to resist any pressure to make changes to standards which are inconsistent with the objective of high quality financial reporting, whether such pressures are imposed indirectly via the FASB or more directly in other jurisdictions.

6. We agree with the general points made in the *Request for views*, including inter alia:

- short-term changes attempting to create a 'level playing field' could well undermine the quality of financial reporting;

- ensuring sufficient due process before any changes are made is of paramount importance, especially the need for a sufficient comment period to respond to any proposals;

- the IASB should focus on its major projects, to allow complex interrelated issues to be addressed more comprehensively; and
- effective dates for any final amendments should always be set far enough in the future to provide sufficient lead time for implementation.

7. We also agree with the comment in the *Request for views* that any consideration by the IASB of the FASB proposals on the Impairment Model for Debt Securities would entail substantial changes to IFRSs, and would also significantly delay the comprehensive joint IASB/FASB project to improve the reporting for financial instruments.

8. However, we are also aware of the desirability of ensuring that there are no differences in determination of fair value between IFRS and US GAAP and aware of the past experience of perceived differences arising as a result of differences in wording. In addition, there are strongly held views on the necessity of having a level playing field between the two GAAPs as has been demonstrated by the October amendment to permit reclassifications.

9. Although we would prefer the issues raised in the FSPs to be considered in the round as part of the recently accelerated joint project to replace existing financial instrument standards and the project on fair value measurement, as recognised by the IASB press release dated 7 April, the IASB staff will have to assess whether the valuation FSP (a) is consistent with the IASB Expert Advisory Group's guidance on fair values and (b) could lead to different results in practice.

10. We are aware that the FSPs eventually promulgated by the FASB are different from the original proposals.

Determining whether a market is not active and a transaction is not distressed

11. In general, we believe that the proposed FASB guidance, particularly as described by the FASB meeting on 2 April, is compatible with the objective of a fair value measurement as described in the IASB Expert Panel Guidance (IASB Guidance). We also suggest that any future IASB guidance on fair value measurement should demonstrate a clear link to the IFRS 7 disclosures in level 1 - 3 categories.

12. We do not support the proposed two-step approach set out in the original proposals. Although distressed sales and inactive markets will often occur together, it is easily conceivable that a distressed transaction can occur in an active market. The FASB is silent on how to deal with this situation and what criteria to apply. The approach suggested in the IASB Guidance is better, being less complex and more workable in practice.

13. The original proposal to assume that an observed quoted price in an inactive market is a distressed price unless it could be proved otherwise has been eliminated. Instead the decision as to whether or not transactions are distressed is based on the weight of the evidence. We agree that this is an improvement, as it reinforces the need to use judgement, and should result in broadly similar conclusions as the existing IASB Guidance. However, as acknowledged, the IASB will need to confirm this is the case and may wish to

amend the wording in the guidance to reduce the risk of differences in interpretation.

Impairment model for debt securities

14. Overall, we believe that most of the differences with US GAAP identified in the IASB's *Request for views* are areas where US GAAP could usefully move to IFRS. (One exception is in relation to AFS securities, which we consider in paragraph 16 below.)

15. We agree that there are differences in relation to held-to-maturity (HTM), but we do not think that this is a particularly important category and, anyway, the impairment model in IAS 39 is more appropriate than that in US GAAP.

16. We would accept that improvements could be made to the treatment of AFS impairments under IFRS. We note that those taking part in the Crisis round-table discussions earlier in the year 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 do not advocate short-term tinkering and would prefer that the IASB consider this issue as part of the recently accelerated joint project to replace existing financial instrument standards. However, it may be helpful to the debate for the IASB to specifically seek feedback from its constituency, particularly users, on whether separate presentation of the incurred loss impairment and the rest of the fair value movement on AFS debt securities would better meet information needs despite the added complexity.

17. We note that the FSP does not justify the use of Other Comprehensive Income (OCI) to hold the remainder of the fair value charge. We oppose such uses of OCI. This is more evidence, if more were needed, that the Financial Statement Presentation project needs to address properly the basis for an OCI category and what the composition of net income should be. This proposal is likely to make the information more confusing and difficult for users to understand. It is also unfortunate that the Financial Statement Presentation project did not address the presentation of financial instruments. This will need to be addressed in the comprehensive joint IASB/FASB project to improve the reporting for financial instruments if the project is to have a satisfactory outcome.

18. We believe that even in their revised form the FSP's proposed 'other-than-temporary impairment' (OTTI) requirements will increase complexity. Given the extent of the current GAAP differences on the triggers for impairment and the instruments covered, it would not make sense to seek to align with US GAAP immediately.

In conclusion

19. Ultimate convergence between IFRS and US GAAP is desirable, but cannot be achieved in complex areas such as financial instruments by short-term fixes. However, the IASB should reduce, as far as possible, any difference in interpretation between IFRS and US GAAP with regard to fair value measurement. As already indicated by the IASB, this may be achieved by reviewing and updating the staff summary, 'Using judgement to measure the fair value of financial instruments when markets are no longer active'. The IASB may also wish to start a debate with its constituency on the presentation

and disclosure of impairment of AFS debt securities to ensure user's information needs are being met. Such a debate may help inform the recently accelerated joint project to replace existing financial instrument standards, even if it does not lead to a more immediate change to IFRS.

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