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Ms. Sue Lloyd  
Senior Technical Consultant  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Dear Sue,

I appreciate the opportunity to comment on “Exposure Draft ED/2009/07 - Financial Instruments: Classification and Measurement.”

In developing the proposed standard, the Board has been commendably responsive to concerns of financial statement preparers and regulators, worldwide, about the current financial reporting for financial instruments. I do not believe, however, that it is as responsive to the needs of financial statement users. I believe that the proposal, with its preservation of a mixed-attribute model, will result in a standard that is a contrived architecture bringing less-than-useful information to investors. The model itself will likely need continued “standards maintenance” if issued in this form.

By preserving the amortized cost model for financial instruments, the Board appears to be making concessions to the financial services industry, which has loudly favored such a treatment. In doing so, the Board is abdicating its mission to construct standards that present financial information on a neutral basis. The mere inclusion of fair value as a class of financial instruments does not make the information provided by the suggested presentation somehow “neutral,” because fair value reporting is favored by financial statement users. Only if all of the financial instruments are presented on both bases, where reporting is done entirely at amortized cost, would such a presentation be completely neutral.

I prefer the FASB’s current thinking - presentation of financial instruments on a full fair value basis on the balance sheet, including a “bridge” for bringing amortized cost held-to-maturity securities to fair value. It’s a system that gives all constituents what they need.

I offer more specific comments in the following passages.

*Question 1. Does amortized cost provide decision-useful information for a financial asset or financial liability that has basic loan features and is managed on a contractual yield basis? If not, why?*

I do not believe that amortized cost reporting provides more useful information to investors than fair value reporting. Investors want to know what problems and potential benefits face a company in which they invest, and fair value reporting gives them information to assess those issues - and it gives them a basis for evaluating how a management might address problems and manage potential benefits. Amortized cost does not provide such information. It presents a view of the way management would like the world to look, based upon “intention.” It is not fresh, relevant information.

I believe amortized cost can augment fair value reporting. It would be useful for investors to know, for instance, information about earnings if net interest margins unfold in accordance with management intentions to hold securities. That information on an amortized cost basis can be issued in harmony with fair value reporting - as in the current FASB plans.

*Question 2. Do you believe that the exposure draft proposes sufficient, operational guidance on the*

*application of whether an instrument has “basic loan features” and “is managed on a contractual yield basis”? If not, why? What additional guidance would you propose and why?*

I do not believe the entire classification scheme is practical. It's easy to envision enormous amounts of implementation guidance being requested of the Board when companies seek to classify securities under the amortized cost cloak. Ultimately, much of it depends upon management intention because classification partly relies on the way a part of the business is managed. Because of this - and also because of the fact that some firms may account for the same kind of securities differently than others - comparability will be minimized, something that would not occur on a fair value reporting basis.

I believe it would be a waste of the Board's precious time - and a deviation from their mission of developing high quality reporting standards - if they invest time in creating implementation guidance that allows firms to make further use of the amortized cost classification.

*Question 3. Do you believe that other conditions would be more appropriate to identify which financial assets or financial liabilities should be measured at amortized cost? If so,*

*(a) what alternative conditions would you propose? Why are those conditions more appropriate?*

*(b) if additional financial assets or financial liabilities would be measured at amortized cost using those conditions, what are those additional financial assets or financial liabilities? Why does measurement at amortized cost result in information that is more decision-useful than measurement at fair value?*

*(c) if financial assets or financial liabilities that the exposure draft would measure at amortized cost do not meet your proposed conditions, do you think that those financial assets or financial liabilities should be measured at fair value? If not, what measurement attribute is appropriate and why?*

As stated above, I do not believe this approach is appropriate on the grounds that it is not a neutral presentation of financial information, and that I believe fair value measurement of financial assets and liabilities is far more informative for investors.

*Question 4. (a) Do you agree that the embedded derivative requirements for a hybrid contract with a financial host should be eliminated? If not, please describe any alternative proposal and explain how it simplifies the accounting requirements and how it would improve the decision-usefulness of information about hybrid contracts.*

*(b) Do you agree with the proposed application of the proposed classification approach to contractually subordinated interests (i.e. tranches)? If not, what approach would you propose for such contractually subordinated interests? How is that approach consistent with the proposed classification approach? How would that approach simplify the accounting requirements and improve the decision usefulness of information about contractually subordinated interests?*

(a) I agree with the proposal for hybrid contracts. I believe it would expand the use of fair value reporting.

(b) I do not agree with the proposal for contractually subordinated interests. I find it strange that the same instrument would have two different classifications, one of which is at amortized cost (if it's close enough to an original loan instrument) and the others (the subordinated interests) at fair value. I believe that this opens the door to structuring opportunities, leading to even more use of the amortized cost classification. I would support the use of fair value reporting for all hybrid contracts.

*Question 5. Do you agree that entities should continue to be permitted to designate any financial asset or financial liability at fair value through profit or loss if such designation eliminates or significantly reduces an accounting mismatch? If not, why?*

I don't believe it's necessary to have a fair value option under the scheme proposed in this exposure draft. To achieve fair value status, a firm's managers could simply assert that they do not manage the financial instruments on a “contractual yield basis,” which would automatically require them to use fair value reporting.

*Question 6. Should the fair value option be allowed under any other circumstances? If so, under what other circumstances should it be allowed and why?*

I do not support a fair value option. I believe that fair value reporting is more beneficial to investors; as long as there is a fair value option, it means there is also amortized cost. Therefore, an option - which discourages comparability, as well - only prolongs the use of the amortized cost classification.

*Question 7. Do you agree that reclassification should be prohibited? If not, in what circumstances do you believe reclassification is appropriate and why do such reclassifications provide understandable and useful information to users of financial statements? How would you account for such reclassifications, and why?*

I find the prohibition of reclassification to be contradictory. The classification methodology heavily relies on management intention in the first place (“managed on a contractual yield basis”), yet when circumstances change and the management intention changes, no reclassification is possible.

One can imagine future management protests of “we have to manage our business this way in order to comply with accounting standards - the accountants are forcing us to make harmful economic choices!”

*Question 8. Do you believe that more decision-useful information about investments in equity instruments (and derivatives on those equity instruments) results if all such investments are measured at fair value? If not, why?*

*Question 9. Are there circumstances in which the benefits of improved decision-usefulness do not outweigh the costs of providing this information? What are those circumstances and why? In such circumstances, what impairment test would you require and why?*

As stated before, I believe that all financial instruments should be stated at fair value because that will provide the most neutral information to investors about a firm’s problems and opportunities. Equity instruments should be included in this treatment. Any exemption for “strategic” investments would be an invitation to information obfuscation, and there is no rationale for why some investments are considered strategic. Would the presence of “strategic” investments make other investments “frivolous?”

Furthermore, maintaining financial instruments - including equity instruments - on other than a fair value basis will require the use of an impairment model. Impairment models for amortized cost basis assets have been fraught with timing problems and interpretation issues; another argument in favor of fair value reporting.

*Question 10. Do you believe that presenting fair value changes (and dividends) for particular investments in equity instruments in other comprehensive income would improve financial reporting? If not, why?*

There is no particular rationale for putting the reporting of this economic activity into other comprehensive income. Value changes and dividends could also be reported in net income, on the grounds that they reflect economic activity that occurred for the period and changed the lot of the firm’s investors.

The only rationale I can fathom for classifying such information into other comprehensive income is that it will be less visible to investors - which I do not support.

*Question 11. Do you agree that an entity should be permitted to present in other comprehensive income changes in the fair value (and dividends) of any investment in equity instruments (other than those that are held for trading), only if it elects to do so at initial recognition? If not,*

*(a) how do you propose to identify those investments for which presentation in other comprehensive income is appropriate? Why?*

*(b) should entities present changes in fair value in other comprehensive income only in the periods in which the investments in equity instruments meet the proposed identification principle in (a)? Why?*

I do not agree with the Board’s approach of allowing firms to present fair value changes and dividends in other comprehensive income, for the reasons stated above.

*Question 12. Do you agree with the additional disclosure requirements proposed for entities that apply the*

*proposed IFRS before its mandated effective date? If not, what would you propose instead and why?*

*Question 13. Do you agree with applying the proposals retrospectively and the related proposed transition guidance? If not, why? What transition guidance would you propose instead and why?*

I do not believe the Board should permit an early adoption for the proposed accounting. There will be too much non-comparability across companies that adopt early and those that do not, and the required disclosures for early-adopting companies are only for the period of adoption and only focused on balance sheet items.

I would prefer to see a unified adoption by all companies on a retrospective basis in 2012. Comparability among companies is already compromised by the proposed accounting; transition shouldn't be an event that compounds it.

*Question 14. Do you believe that this alternative approach provides more decision-useful information than measuring those financial assets at amortized cost, specifically:*

*(a) in the statement of financial position?*

*(b) in the statement of comprehensive income?*

*If so, why?*

*Question 15. Do you believe that either of the possible variants of the alternative approach provides more decision-useful information than the alternative approach and the approach proposed in the exposure draft? If so, which variant and why?*

I believe the alternative approach would be an improvement upon the approach described in the exposure draft, yet it still maintains the amortized cost model for what could be a significant number of financial instruments. The second variant is more informative: all financial instruments would be reported at fair value and all value changes would at least be shown in other comprehensive income.

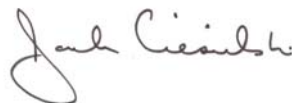
That particular approach is closer to the FASB's thinking, which provides more decision-useful information for investors. The FASB's approach also melds the statement of other comprehensive income to the income statement, making it much less of a "burial ground" for unpleasant information. That approach is worthy of the Board's consideration, in my view.

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To reiterate, I believe that the Board has gone the extra mile in being responsive to the needs of preparers in the formulation of this proposed accounting standard. At the same time, I do not believe that this proposal does much to improve the lot of investors - those who are actually supplying the capital. If financial reporting entices investors to put capital to work, it should give them a clear picture of what they're getting for their capital. This proposal will not supply investors with that picture.

If you have any questions, please do not hesitate to contact me. Best regards.

Sincerely,



Jack Ciesielski

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