

June 29, 2010

Submitted electronically via [www.iasb.org](http://www.iasb.org)

International Accounting Standards Board  
30 Cannon Street, 1<sup>st</sup> Floor  
London EC4M 6XH  
United Kingdom

Dear Sirs

**Re: Exposure Draft, *Financial Instruments: Amortised Cost and Impairment***

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's November 2009 Exposure Draft, *Financial Instruments: Amortised Cost and Impairment*.

The AcSB thinks that finalizing the basic approach in this Exposure Draft, even in a modified form, would not result in an improvement in financial reporting.

The AcSB strongly disagrees with the IASB issuing standards on financial instruments that are not identical to those adopted by the US Financial Accounting Standards Board. Major financial institutions compete and raise capital globally. Comparisons are not possible if their financial statements are prepared using different accounting standards.

The AcSB also strongly disagrees with issuing a standard that increases the complexity of financial instrument accounting. The model proposed in the exposure draft would be difficult and costly to implement. The AcSB thinks that the effort to implement the proposal, even incorporating the suggestions of the Expert Advisory Panel, would not be justified by any potential benefits to financial statement users. Further, the model is impracticable for entities other than financial institutions and would alter revenue recognition while the new revenue standards are still being developed.

The AcSB does not agree that the proposal would be the best way to accelerate recognition of credit losses in practice. The AcSB thinks that more consistent and timely recognition of impairment would result from removing the requirement for “objective evidence” of impairment from IAS 39. In the Board’s view, this requirement has been widely misinterpreted and inconsistently applied. This approach would also more closely align IFRS with the model exposed by the FASB in their May Exposure Draft. Representatives of the Canadian banking industry have advised the AcSB that implementation of the proposed model would not significantly change the amount or timing of the credit losses they recognize under the current Canadian GAAP incurred loss model. These losses comprise specific provisions for known problems with individual loans supplemented by a general provision to cover losses estimated to have been incurred due to changes in economic conditions but not yet associated with specific loans. However, the current Canadian model is operationally much simpler than that proposed in the Exposure Draft and determination of the provision is consistent with bank risk management practices. Eliminating the “objective evidence” requirement in IAS 39 would also be less complex for preparers.

The AcSB does not think that the accounting standards for impairment should be changed in an attempt to achieve adequate regulatory capital in financial institutions. The AcSB agrees with the objective of financial reporting articulated in the Framework and does not think that accounting standards should be designed to meet other public policy objectives. The AcSB also thinks that, even if a final standard based on the proposed model satisfies regulators’ expressed desire for earlier loss recognition, it would not reduce procyclicality because, as loss expectations are continuously revised over the life of each loan, they will naturally reflect the current condition of the economy.

The AcSB disagrees with incorporating possible credit losses into the measurement of interest income. Financial statement users have indicated that they think contractual interest income (net of amortization of fees and costs) and provisions for credit losses have different properties. Consequently, they consider them separately to compare the quality and performance of loan portfolios of financial institutions.

The AcSB is very concerned that, in rushing the project and proceeding without consensus with the FASB, the IASB will not achieve the stated objective of a high quality, globally converged standard. If this objective is not achieved, there was little point in reopening both Boards’ standards in this area. The changes contemplated by this proposal are extensive. Until the IASB and the FASB agree on the most decision-useful accounting for financial instruments, there is no certainty that there won’t be a further round of changes. The AcSB thinks that frequent changes in accounting standards on the same topic are costly for both financial statement preparers and users.

Given our fundamental disagreement with the proposals in the Exposure Draft, the AcSB does not think any purpose would be served by responding to the detailed questions posed in the Invitation to Comment.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me, Peter Martin, Director, Accounting Standards (+1 416 204-3276 or email [peter.martin@cica.ca](mailto:peter.martin@cica.ca)) or Kate Ward, Principal, Accounting Standards (+1 416 204-3437 or email [kate.ward@cica.ca](mailto:kate.ward@cica.ca)).

On behalf of the Board

A handwritten signature in black ink that reads "Patricia O'Malley". The signature is written in a cursive style with a large initial 'P' and 'O'.

Patricia L. O'Malley  
Chair, Accounting Standards Board  
[tricia.omalley@cica.ca](mailto:tricia.omalley@cica.ca)