

31 March 2009

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Dear Sir David

**BANKING ASSOCIATION SOUTH AFRICA SUBMISSION TO THE IASB ON THE
FASB'S PROPOSED GUIDANCE REGARDING FAIR VALUE MEASUREMENT AND
IMPAIRMENTS OF FINANCIAL INSTRUMENTS**

In response to the International Accounting Standards Board's (IASB) press release dated 18 March 2009 requesting views on proposals from the Financial Accounting Standards Board (FASB) dealing with fair value measurement and impairments of financial instruments, please find attached the responses of The Banking Association South Africa. The Banking Association represents the views of all the banks that operate in South Africa.


We understand that the request for views is not an IASB due process document. We do, however, welcome the opportunity to express our views on the proposed FASB amendments. We request that the IASB consider following a similar process for other documents that may be issued by the FASB in the future which may or may not contribute to further convergence between International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Practice ("US GAAP"). In addition, should the IASB consider issuing similar amendments to IFRS we ask that the IASB follow due process in issuing the proposals and seeking comment from all constituents within an appropriate time frame.

We note that there are currently several differences between IFRS and US GAAP, especially in the manner in which financial assets are impaired. We have not specifically commented on the US GAAP fair value measurement and financial asset impairment requirements but have rather commented on the application of the principles of the FASB's proposals from an IFRS context.

Appendix 1 to this document sets out our detailed comments on each of the amendments proposed by the FASB. In addition, we have included a section dealing with other matters that arose during our discussions on the proposed amendments that we believe the IASB should also consider.

We look forward to providing further comments on proposals issued by the IASB as the IASB works together with the FASB to achieve the effects of reducing the complexity and convergence in the area of financial reporting for financial instruments.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Stuart Grobler". The signature is written in a cursive, flowing style.

Stuart Grobler
Senior General Manager
The Banking Association South Africa

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Appendix 1

Proposed additional guidance on determining whether a market is not active

We note that the scope of FSP FAS 157-e (measurement guidance) applies only to determining fair value for financial assets. We believe that the measurement guidance applied to determine the fair value of financial assets should be applied equally to financial liabilities. We agree with the measurement guidance for application to both financial assets and liabilities and believe that these principles provide a much-needed clarification of what is often applied in practice.

IAS 39, paragraph 48A states that *'if the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique.'* In such an instance, the entity would determine the fair value of the instrument using a valuation technique that *'makes maximum use of market inputs and relies as little as possible on entity-specific inputs'*. We believe that the measurement guidance is consistent with IFRS since it requires an entity to first value an instrument using a quoted price and if that market is not active then the entity should consider whether there are any other factors or conditions that warrant an adjustment to the quoted price.

We note the following:

- We believe that the principles in the measurement guidance are consistent with the IASB's guidance for measuring and disclosing fair values in a market that is no longer active in terms of the publication issued by the Expert Advisory Panel. This guidance does not, however, have the same authority as a standard in IFRS because it is not issued as guidance. We believe that it would assist the preparers of the financial statements to include this guidance in the body of, or in the application guidance accompanying, *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"). This will assist all parties involved in the preparation and review of the financial statements and ensure that the financial statements are prepared on a consistent basis;
- We note that IFRS defines an instrument as being quoted in an active market where *'quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.'* We believe that the measurement guidance provides examples of factors that indicate that a market is not active beyond the definition of IFRS and recommend that the IASB consider including those factors into IFRS;
- We believe that the two-step process outlined by the measurement guidance should be incorporated into IFRS in clarifying whether one should use quoted prices or valuation techniques in valuing a financial instrument;
- The above recommendations apply equally to debt and equity securities and we recommend that the guidance specifically state that; and

- Again we would like to stress the importance of any guidance being applicable equally to financial assets and financial liabilities.

Proposed amendments to the impairment requirements for certain debt and equity securities

Debt securities

Securities measured at amortised cost

We believe that the current IFRS impairment requirements for financial assets classified as loans and receivables and held to maturity are superior to those proposed by the FASB in FSP FAS115-a (impairment guidance). We therefore recommend that IASB make no amendments to the impairment requirements for financial assets measured at amortised cost.

Securities classified as available-for-sale

We agree with the concept of separating impairment losses between credit losses (recognised in profit or loss), and other market movements (recognised in other comprehensive income). In the introduction to the exposure draft *Investments in Debt Securities* issued by the IASB on 23 December 2008, mention was made of the fact that participants in the round table discussions felt that information on the credit losses of financial assets classified as available for sale, as if they had been measured at amortised cost, would be useful. We believe that this separation would go some way to providing that information to users of the financial statements.

We agree with the current requirements in IFRS which allow for the impairment loss recognised on a debt instrument that is classified as available for sale to be reversed in subsequent periods through profit or loss. We recommend that the IASB make no amendments to this requirement.

We also agree with the IFRS principle that an impairment loss does not result in a new deemed cost for the impaired instrument and that in effect the interest income recognised on an impaired financial asset will continue to be recognised at the original effective interest rate. This is consistent with the requirements for financial instruments measured at amortised cost. We therefore do not believe that any amendments should be made to these requirements.

Equity securities

We agree with the proposals included in the amendments which allow for consideration of management intention and ability in determining whether a downward adjustment in fair value, below initial/acquisition cost, will result in the recognition of an impairment loss. This is consistent with the method by which management classifies financial instruments based on their intent and ability in terms of IAS 39 and the disclosure thereof in terms of *IFRS 7 Financial Instruments: Disclosures* ("IFRS 7").

We believe that these requirements should be included in the current requirements of IAS 39 paragraph 61 in determining whether objective evidence of impairment exists for equity instruments. We believe that the identification of objective evidence of

impairment and the recognition of an impairment loss should be determined using a three-step process as follows:

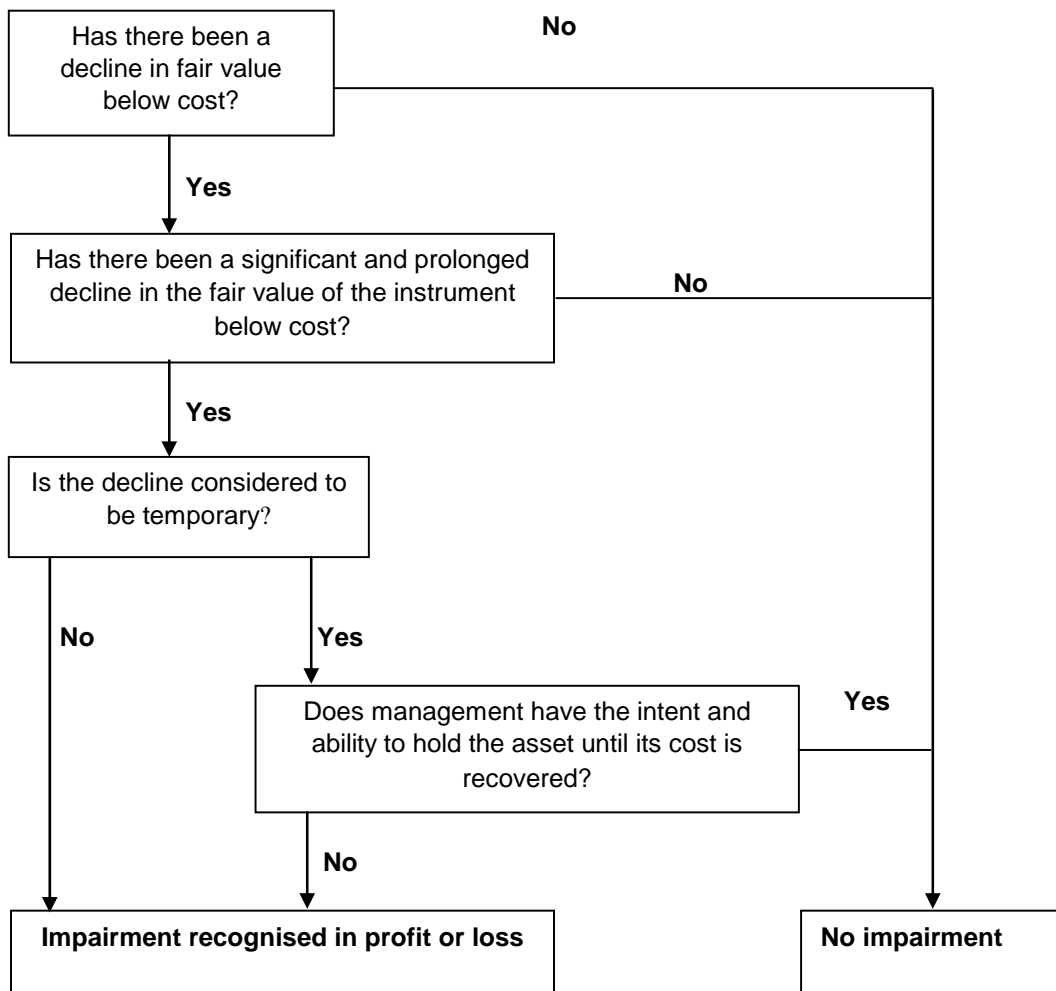
1. The first step should be consistent with the current requirements of significant changes in the operating environment which indicate that the cost of the equity may not be recovered along with a significant or prolonged decline in the fair value below cost. We recommend that IAS 39 be amended to require a decline to be both significant *and* prolonged to be considered objective evidence of impairment rather than for the decline to be significant *or* prolonged.
2. The second step would be to determine whether the significant *and* prolonged decline was other than temporary. The determination of whether the decline is other than temporary should include factors such as the volatility of the market in relation to the changes in fair value of the investee and other pertinent facts. The following are examples of factors that we believe management could consider in evaluating whether a decline is temporary:
 - A comparison between the investee's net asset value and fair value;
 - Financial soundness of the investee;
 - General economic factors affecting the investee;
 - Forecasts and supporting analyst comments and recommendations; and
 - Other relevant factors.
3. The final step in the process would be to determine whether the entity has the intent and ability to hold the equity instrument until its cost is recovered (either through fair value exceeding cost or through future dividends). We have set out a diagrammatic presentation of the three-step process above in Appendix 2.

Further to the above, we recommend that the IASB consider amending the requirement that prevents the reversal of any increases in fair value for available for sale assets above their impaired value through profit or loss. We do not believe that the current requirement appropriately reflects the reversal of an impairment loss.

In terms of current accounting guidance an impairment loss may be recognised because of general market movements and there may not be a specific event that results in the recognition of a downward move in the value of an equity instrument. As a result of this we believe that future increases in the fair value of the impaired available for sale equity instrument should be recorded in profit or loss as a recovery of the impairment loss.

Appendix 2

Proposed decision tree for the impairment of equity instruments



The Banking Association

April 2009.