

15 January 2009

Sir David Tweedie
International Accounting Standards Board
Comment letters
30 Cannon Street
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CommentLetters@iasb.org

Re: IFRS 7 Investments in debt instruments

Dear Sir David,

We are pleased to provide our comments on the exposure draft proposing amendments to IFRS 7 “Investments in Debt Instruments”.

We do not support the proposed changes, which result in:

- Disclosing in a tabular format for all investments in debt instruments other than those classified as at fair value through profit or loss the pre-tax profit or loss as though the instruments had been on one hand classified at fair value through profit or loss and on the other hand accounted for amortised cost.
- Disclosing in tabular format for these debt instruments the carrying amount in the financial statement of the financial position, fair value and amortised cost to permit a comparison

We believe that this proposal further progresses the long-term measurement objective set by the IASB for all financial instruments to be at fair value, and we do not believe that this will allow entities, and particularly financial institutions, to present information that will enable users to understand the performance of the entities. The current tentative decisions of the IASB gives predominance to a measurement of all financial instruments to be based on a sales (transfer) transaction, despite the fact that the business model according to which the instruments are managed is to keep the assets (liabilities) for continuing use because of the cash flows associated with them over time. In such circumstances, we consider that a measurement of fair value of these financial instruments would provide misleading information to the users of the financial statements while the assets have not reached maturity, as it does not provide information on the cash flows that the entity expects to receive. This information is of nature to mislead the present and potential capital providers of an entity in their decision to invest, hold or divest from that entity.

Besides, the adoption of this proposal would result in providing misleading information to the users of the financial statements. This would be due from various users trying to reformat the financial statements with the numbers in the footnotes, and therefore ignoring the way the instruments are actually being used, resulting in imaginary results. It is not



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clear why this proposal is being made. Users will be comparing companies that have different businesses and will therefore be doing a disservice to themselves. In addition, only a select few users of the financial statements will gain the insight of management through discussions on why these numbers are not useful and therefore resulting in a disadvantage to the greater majority of other users of the financial statements.

Another shortcoming of this proposal is that it only takes into consideration investments in debt instruments and not liabilities. Because this is only showing the effects of one side of many instruments, the financial statements will be further misleading, as it will be missing information. One area where this can easily be demonstrated is the result from assets and liabilities, which naturally offset each other. If only one side is considered, then the analysis will not show the hedge that could be taking place and therefore the wrong conclusions could be made.

Finally, the required cost to configure the information systems to run parallel systems will prove to be too expensive in comparison to the additional information that would be provided.

You will find our answers to the questions asked by the exposure draft in the appendix. Should you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

Gérard Gil
Chief Accounting Officer

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?

We are opposed to present pre-tax profit or loss according to the scenario proposed above. The business models used to manage the financial instruments are indeed not taken into consideration in the proposed disclosures.

For some industries like insurance, reassessing assets at fair value, classified in the HTM or L&R categories also raises questions on reassessing some other balance sheet items as participation to policyholders. The subject might turn out quite complex and certainly need further thinking.

For all these reasons, we reject presenting pre-tax income based on a fair value measurement for financial instruments that will be held to manage cash flows over time. There is an important difference between disclosing the fair value of instruments and disclosing the profit and loss effect from measuring them at fair value in the footnotes. The profit and loss effects from hypothetically measuring instruments at fair value provides no benefit and only creates unnecessary confusion for instruments that are not managed on a fair value basis. A “what if” P&L does not give the picture of what it would have been under a fair value world, as under a fair value management the management decisions would have been different and the fair value P&L would have been different.

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?

We are opposed to disclose an additional pre-tax profit or loss, which does not reflect our business model.

For all of the reason stated in question 1, we disagree with providing this disclosure and therefore any reconciliation. Generally, those who are creating custom models are the ones who understand what they are trying to get from them and therefore have a purpose for why they use specific figures. By providing this additional information, we are only confusing many of the users and not working towards making financial reporting easier and clearer to understand.



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?

We are opposed to disclose information required in paragraph 30A b). We believe that this table would be perceived as if we are presenting information that is meaningful, but in actuality, it is misleading.

Our financial statements already disclose fair value for financial instruments valued at amortised cost, and we mention that this information must be used and interpreted with the greatest caution for the following reasons.

First, the fair values provided are an estimate of the value of the relevant instruments and they are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the amounts actually received or paid on maturity of the instrument. In most cases, the fair value is not intended to be realised immediately, and in practice might not be realised at all. Consequently, this fair value does not reflect the actual value of the instrument as a going concern.

Besides, most of these fair values are not meaningful, and hence are not taken into account in the management of the commercial banking activities, which use these instruments.

Eventually, estimating a fair value for financial instruments carried at historical cost often requires the use of modelling techniques, hypotheses and assumptions that may vary from bank to bank. This means that comparisons between the fair values of financial instruments carried at historical cost as disclosed by different banks may not be meaningful.

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?

For reasons explained before, we do not believe it is appropriate to widen the scope to investment in debt instruments held for trading or designated at fair value through profit or loss. Presenting them at amortised cost is meaningless, since it would ignore the entities classification decisions and potential hedging strategies that they would have made.



Question 5

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

We do not agree with the proposed effective date. The systems changes that would be required to gather the amount of additional information cannot be done in such a short time frame, especially for retroactive periods. No case can be made on why this is such an emergency that requires this proposal to be made under such harsh conditions. Although the IASB board was responsive in its meeting in October 2008, its decision resulted in an option, not a requirement. This requirement shows that the board has potentially overstepped its understanding of what is realistic with what the real needs are and what is possible and at what cost.

Question 6

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

We agree with the fact that comparative information should not be required