

Memo

To: International Accounting Standards Board

From: Accounting Standards Board – Canada, Staff

Date: January 14, 2009

Re: **Investments in Debt Instruments: Proposed amendments to IFRS7**

The following comprises the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IASB's Exposure Draft on *Investments in Debt Instruments: Proposed amendments to IFRS 7*, dated December 2008.

AcSB staff held discussions of the Exposure Draft with the AcSB, in the context of considering the need for similar proposals in Canada, as well as with its User Advisory Council. The views expressed in this letter take into account comments and perspectives raised by members of the AcSB, its User Advisory Council and staff, though they do not necessarily represent a common view of the Council or the AcSB. Views of the AcSB are developed only through extensive due process.

We agree with the proposal 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) amortized cost. However, we **disagree** with the proposed disclosure of pre-tax profit or loss under alternative assumptions. We think that would

undermine attention to pre-tax profit or loss as reported in the statement of comprehensive income. **We also disagree** with the proposed effective date.

Also, we think that there are aspects of the corresponding proposals issued by the FASB in proposed FSP 107-a that would be beneficial to be included in the amendments to IFRS 7 and encourage the Boards to converge their requirements as closely as possible. We think that the following requirements in proposed FSP 107-a should also be required by IFRS 7:

- (i) the line-item presentation of the financial assets disclosed in the tabular format shall be consistent with the line-item presentation of those financial assets in the entity's financial statements, and
- (ii) the entity shall provide a description of the factors causing differences in measurements for each category of financial asset included in the table.

We agree that if information about the results of alternative measures for debt instruments is to be provided, it should be provided by way of disclosure and not, as requested by some, by disaggregating fair value measurement losses between profit or loss and other comprehensive income. We think that recognition of the fair value impairment in profit or loss provides more relevant information and a better indication of ultimate realized losses than an incurred loss model, as noted in paragraph BC5 of the Basis for Conclusions.

The Appendix to this letter provides our comments on the questions asked in the Discussion Paper.

We would be pleased to elaborate on these points in more detail if you require. If so, please contact Peter Martin, Director Accounting Standards at +1 416 204-3276 (e-mail peter.martin@cica.ca) or Ian Hague, Principal at +1 416 204-3270 (e-mail ian.hague@cica.ca).

Appendix

Responses to questions asked in the Discussion Paper

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 do not agree with the proposal 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 amortized cost. We are concerned that the proposed disclosure of pre-tax profit or loss under alternative assumptions might undermine attention to pre-tax profit or loss as reported in the statement of comprehensive income and risk confusion to investors. We think that the proposal goes significantly beyond providing additional information about items that are otherwise on the statement of financial position and comprehensive income. Rather, we think that the proposal provides inappropriate legitimacy to “proforma” measures, which is in conflict with the general approach followed in IFRSs. We note also that many regulators have strongly opposed presentation of alternative measures of financial performance in financial statements. Accordingly, we think that the disclosure should be limited to that in proposed paragraph 30A(b).

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?

As noted in our response to question 1, we do not agree with the proposal to require disclosing pre-tax profit or loss under alternative assumptions. However, if the IASB decides to require such a disclosure we think those amounts should be reconciled to profit or loss as reported in the statement of comprehensive income. This reconciliation should be accompanied by a description of the factors causing differences in measurements for each category of financial asset included in the table, as the FASB’s proposed FSP 107-a would require.

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 agree with the proposal 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) amortized cost. However, members of the AcSB's User Advisory Council found the illustration in the implementation guidance difficult to understand.

We think that this requirement should be supplemented with a requirement that the line-item presentation of the financial assets disclosed in the tabular format be consistent with the line-item presentation of those financial assets in the entity's financial statements. This would be the same as that in the FASB's proposed FSP 107-a, and would seem to be the intent of the IASB, as demonstrated by the Illustrative Example. However, such presentation does not seem to be required by proposed paragraph 30A.

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?

We agree that the scope should exclude investments in debt instruments classified as at fair value through profit or loss, for the reasons stated in paragraph BC6 of the Basis for Conclusions.

Questions 5 and 6

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

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

We disagree with the proposed effective date and transition. We are not convinced that the disclosures are sufficiently urgent that they must be provided for periods ending before completion of the standard-setting process. We disagree with retroactive application to financial statements for periods ending before a pronouncement is issued. In some cases, the work needed to apply the new requirements could delay the publication of an entity's financial statements or result in poor quality application to meet deadlines. We think that the proposals should be effective for interim and annual financial periods beginning on or after January 1, 2009. If that is the case, then we also propose that comparative information be required on initial adoption.