15 January 2009

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT – *INVESTMENTS IN DEBT INSTRUMENTS – PROPOSED AMENDMENTS TO* IFRS 7

In response to your request for comments on the IASB's exposure draft, *Investments in Debt Instruments – Proposed amendments to* IFRS 7, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.
Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT *INVESTMENTS IN DEBT INSTRUMENTS*

General comments

We understand that this exposure draft has been issued in response to the current crisis in the world's financial markets and to provide users of financial statements with additional fair value and amortised cost information for certain financial assets.

Whilst we support the need for further disclosures to be provided for investments in debt instruments that are not recognised at fair value through profit or loss as envisaged by the exposure draft, we have several concerns as indicated below.

While we understand the Board's intentions behind the proposed amortised cost disclosures, we do not believe that they satisfy the requests of the participants at the round-table meetings for disaggregated information about impairment losses for available-for-sale debt instruments split between 'incurred losses' and 'other fair value adjustments'.

Our principal concerns with respect to the proposed disclosure requirements are as follows:

- Even though there is currently a requirement to provide disclosures of the fair value for all financial instruments at the reporting date, we are of the opinion that the requirement to disclose pre-tax profit or loss as though all debt instruments are accounted for at fair value through profit or loss will result in increased scrutiny of these fair value disclosures by users of the financial statements. Systems and governance procedures would have been put in place, expecting note disclosure only of the amount as opposed to the proposed requirement to present alternate profit figures using the fair values;

- It should be acknowledged that earnings is an extremely sensitive measure and, whilst this disclosure is intended to help restore confidence in financial reporting, disclosing two possible alternative earnings results, which may be in conflict with the manner in which those financial assets are managed, may be interpreted out of context and not have the intended effect;

- Many entities do not manage all their financial assets on a fair value basis and accordingly amortised cost is considered to be an appropriate measurement basis for many investments in debt instruments. Disclosing the impact on pre-tax profit and loss as though such instruments were measured on a fair value basis will require enhanced governance processes and procedures to be put in place. (Refer, for example to the Supervisory guidance for assessing banks' financial instrument fair value practices, issued by Basel Committee on Banking Supervision in November 2008). In addition, since such information would not have been reported, nor considered by management in the Board's intended form, the increased scrutiny by users and the prominence of such information may not reconcile with the attention that management has provided to the analysis and interpretation of such disclosure results;

- Whilst the proposed amendments do not require a reconciliation of the results in the disclosure requirement in the proposed paragraph 30A(a) (with which we agree), we believe that users of the financial statements may nevertheless request such information. We believe that the necessary governance processes and procedures may not be in place before the implementation of the final amendments and that the new requirements may therefore not be able to be implemented in the limited time period provided for entities whose financial reporting period ends on or after 15 December 2008;

- Whilst we understand the need to provide the proposed disclosure requirements, especially in the wake of the current financial market crisis, we are concerned that the Board has provided the minimum required amount of time to consider and process the comments and that these amendments will be issued after their proposed effective date. Entities may not have sufficient time to fully digest and evaluate the impacts of such proposals in terms of associated system requirements, informational requirements of its users and governance processes. We also note that all comments that are received by the Board, in terms of this exposure draft, will require consideration by the Board in a minimal period of time prior to the issue of a final amendment. We are therefore concerned that appropriate due process may not be applied in the drafting of the final amendment;

- We note that there is no definition of 'Investments in Debt Instruments' either in the exposure draft or other International Financial Reporting Standards ('IFRS'). Please refer to our 'other comments' section below for further discussion in this regard. We are concerned that the consistent application in the absence of this definition may not be achieved by all preparers of financial statements;

- The exposure draft proposes pre-tax profit or loss disclosures on two alternative measurement bases only for all investments in debt instruments included in the scope of the proposed amendment.. We are concerned that this disclosure requirement does not provide a complete picture to the user of the financial statements since such an analysis neither includes all financial instruments nor does it include non-financial instruments and therefore question the benefit that will be derived by the user;

- Paragraph 30 A(a) requires disclosure of pre-tax profit or loss as if all debt instruments (with exceptions) had been *"accounted for at amortised cost"* . We presume that this would require the calculation of a collective or portfolio impairment loss on those available-for-sale debt instruments not considered to be specifically impaired. This may result in onerous implementation requirements given the short timeframe to implement the proposals. We would like to point out that the FASB has indicated in its proposals (Proposed FASB Staff Position FAS 107-a *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*) that such an estimate of a collective or portfolio impairment loss is not required. We suggest that the Board make a similar exemption; and

- After taking cognisance of the previous point, we also note that paragraph 30A(b) merely requires disclosure of the "amortised cost" of all debt instruments (with exceptions). It does not say that this amount should be the amount as if the instruments had been "*accounted for at amortised cost*". Presumably these disclosures would not require the inclusion of a collective or portfolio impairment loss. We are therefore concerned with the possible inconsistency between the requirements of 30A(a) and 30A(b). We recommend that the Board clarify that such collective impairment losses are not required in the final amendment.

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?

Whilst we do agree with the proposal to include disclosures for available-for-sale financial instruments, in terms of pre-tax profit or loss as though the instruments had been classified as at fair value through profit or loss, we are of the opinion that the proposal with respect to available-for-sale financial instruments as if they were accounted for at amortised cost does not satisfy the requests of the participants in the round-table meetings.

There is no clear definition of *'Investments in Debt Instruments'* in IFRSs. We recommend that the Board clarify which of the categories of financial assets in IAS 39 – *Financial Instruments: Recognition and Measurement ('IAS 39'),* are to be included within the definition of *'Investments in Debt Instruments'*. This concern has been elaborated further under the 'Other comments' section of this comment letter.

We also refer to our comments raised in our general comments section above regarding the prominence and heightened level of scrutiny by users of such information, the concerns related to whether collective or portfolio impairment losses need to be included for the amortised cost calculation for available-for-sale debt instruments and ultimately the consistent application of the disclosure requirements being achieved by all preparers of financial statements.

We also believe that such information could be misinterpreted by users of the financial statements as being information that management regularly reviews and considers in the management of its financial risk.

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 do not believe that reconciliations should be required between reported profit and loss and the profit or loss that would have resulted under the two scenarios. We believe that the collection of this data would be onerous; especially considering the limited period of time available to comply with the proposed disclosures and that the final amendment is yet to be issued by the Board. Furthermore, the reconciliation will be difficult to interpret and may not add significant value to the users of the financial statements since both the opening and closing balances of the reconciliation would be a mixture of the results of both amortised cost and fair value measurement bases.

We are of the opinion that the costs and time involved in providing and collating such information exceeds the benefits that will be derived by users of financial statements.

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, but note our comments above with respect to the scrutiny that such disclosures will receive.

As referred to in our general comments above, we question whether these disclosures would not require the inclusion of a collective or portfolio impairment loss. We are concerned with the possible inconsistency between the requirements of 30A(a) and 30A(b) and whether it is the intention of the Board that a collective impairment be determined for such instruments in terms of this proposed amendment.

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 with the proposal.

Question 5

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

As noted in our general comments section above, we have concerns with the proposed effective date of the exposure draft considering the fact that the effective date precedes the date on which the final amendment will be issued by the Board. The proposed effective date will require certain entities to commence sourcing information even before the proposed amendment has been finalised. This does not allow entities sufficient time to establish and follow appropriate governance and control processes to ensure that the information published will be reliable.

We are also concerned that entities will commence collating information based on the requirements of the current exposure draft that may change (in terms of a finalised standard) prior to the finalisation of its financial statements. This may result in entities having to delay the publication of their financial statements which may result in non-compliance with other country specific regulations with regard to publication of financial statements. For these reasons we propose that the effective date be re-considered by the Board.

We also suggest that the Board consider the timing of the issue of any future standards, amendments and interpretations with short lead times and that the retrospective application of a standard should be discouraged unless sufficient lead times are provided. The issuance of standards with retrospective application with short lead times could result in unintended consequences such as inconsistencies with other IFRSs, inappropriate interpretations being reached as well as application oversights by preparers of financial statements.

Question 6

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

If the exposure draft is issued with its current effective date, we are supportive of the fact that comparative information is not required.

Other comments

Definition of investments in debt instruments

As highlighted above, there is no definition of 'Investments in Debt Instruments' in IFRS. We recommend that the Board clarify which of the categories of financial assets in IAS 39 are to be included within the definition of 'Investments in Debt Instruments'. We understand that the reference to 'Investments in Debt Instruments' would include all available-for-sale financial assets (except investments in equity instruments), loans and receivables and held-to-maturity investments but believe that the amendment needs to define its scope more clearly.

We note that the Application Guidance (AG 26) of IAS 39, Financial Instruments: Recognition and Measurement ('IAS 39') states: *"Any non-derivative financial asset with fixed or determinable payments (including loan assets, trade receivables, investments in debt instruments and deposits held in banks) could potentially meet the definition of loans and receivables."* After considering AG 26, we believe that it is still unclear as to the scope of the proposed amendment.

We note further that IAS 7 – *Statement of Cash Flows* ('IAS 7') paragraph 6, states that *"Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents."* Further guidance is provided in paragraph 16 of this standard, where it specifically excludes 'advances and loans of a financial institution'. It is unclear whether it was the Board's intention that the definition of '*Investing Activities*' in IAS 7 be applied in determining whether the investments in debt instruments fall within the scope of this exposure draft.

We also note that in certain jurisdictions, such as the United States of America ('US'), loans and receivables (such as trade accounts receivable and loans receivable arising from commercial lending activities of financial institutions) are not included in the definition of debt instruments. Debt instruments in these jurisdictions typically include instruments that are quoted in an active market such as investments in government debt instruments, commercial paper and securitised debt instruments.

We propose that the definition of 'Investments in Debt Instruments' is clarified since any inconsistency will result in non-comparable information being produced. We believe that the Board should provide a concise definition of 'Investments in Debt Instruments' as part of the main body of IAS 39 and not in its application guidance.

Format of disclosures

As we articulated in our comment letter on *Improving Disclosures about Financial Instruments – Proposed amendments to* IFRS 7*,* we do not believe that the proposed amendment should mandate that the proposed disclosures be provided in a tabular format. We recommend that this requirement be a made a recommendation rather than a rule.

Changes to IFRS 7

We would also like to express our concern with the number of changes that are currently being made to IFRS 7 and specifically with regard to the potential for further conflicts that may arise within IFRS 7 and between IFRS 7 and other IFRSs. For example, paragraph 30A requires disclosures of fair values for all investments in debt instruments other than those classified as at fair value through profit or loss, whilst IFRS 7 paragraph 29 exempts' disclosures of fair value for certain instruments that meet the requirements as set out in this paragraph. We are of the opinion that any necessary changes to IFRS 7 should not be done on an ad-hoc basis in response to specific needs, but should rather be done as part of the annual improvements process.

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