THE INSTITUTE OF
Chartered Accountants
IN IRELAND

Burlington House,
Burlington Road, Dublin 4
Tel: +353 1 637 7200
Fax: +353 1 668 0842
Email: ca@icai.ie
Web: www.icai.ie

Project Manager,
International Accounting Standards Board,
1st Floor,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

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Response of the Accounting Committee of the Institute of Chartered Accountants in Ireland

Exposure Draft: Investments in Debt Instruments

Dear Sir/Madam,

The Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland welcomes the opportunity to comment on the proposals contained in the above document.

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?

AC notes that the issue coming from the roundtable discussions was related to a request from preparers, in particular, to give information in the primary statements that divided the total impairment charge relating to AFS debt instruments (calculated as amortised cost less the lower fair value) between (i) the impairment amount computed on the 'incurred loss model' (defined in BC 3 of the proposed amendment) - in the income statement and (ii) all other value changes - in equity. Users, on the other hand, clearly preferred that the full impairment change (the sum of (i) and (ii) above) would continue to be presented in the income statement, with perhaps additional disclosure providing the analysis.

AC is therefore of the view that any additional disclosures should at this time be limited to:

(a) the debt instruments within the AFS category of financial assets, (ie not extending out to debt instruments held in other categories), and

(b) the analysis of the impairment charge as set out in (i) and (ii) above.

Pat Costello, Chief Executive David J. Butler FCA, Secretary
Belfast Office: The Linenhall, 32-38 Linenhall St, Belfast BT2 8BG
Tel: 048 9032 1600 Fax: 048 9023 0071 Email: ca@icai.ie

The main reasons for this view are as follows:

- neither preparers nor users indicated at the roundtables that the extension of the disclosures beyond the AFS category was something that would be helpful to them. Therefore, further discussion and debate would in AC's view be appropriate before expanding the disclosures to these other categories

- as acknowledged in the ED, this still only gives a partial picture of the impact of having certain items at fair value and others at amortised cost given that the fair value through profit or loss category is not part of the disclosure and that category may include a large number of instruments that are included there under the fair value option. AC is not, however, in favour either of extending the requirement to all debt instruments (ie to include those at fair value through profit or loss already) as this would set a very onerous requirement on entities, with uncertain benefits

- there are already disclosures in IFRS 7 relating to the fair values at the reporting date of both the loans and receivables and held-to-maturity categories which provide useful information to users.

In addition, with regard to paragraph 30A it should be noted that the term 'debt instruments' is not defined at present in IAS 39 and this could, therefore, cause some difficulty in practice. None of the existing IAS 39 definitions appear to cover the term completely; the combination of aspects of the held-to-maturity and loans and receivables definitions appears to be a useful starting point from which a definition could be derived. As the 'debt instruments' definition determines what is to be included in the new disclosure, AC is of the view that the inclusion of a definition is key.

For example, if an entity had a hybrid instrument, ie with an AFS debt host where the return is dependent on an equity index, the equity feature would likely be required to be separated as an embedded derivative with the related fair value changes being recorded via the income statement. It would be helpful to clarify if the disclosure requirements of paragraph 30A apply to the entire hybrid instrument or to the debt host element only. If the disclosure requirement was replaced to instead require the incremental impact on reported profit or loss, this issue would not arise. AC is of the view that, in light of the significant amount of guidance in IAS 32 on the distinction between financial liabilities and equity for issuers, there would be merit in the IASB considering whether it was possible to achieve symmetry in the analysis by holders between debt investments and equity investments.

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?

AC is of the view that any disclosures in this area would need to be reconciled back to the actual pre-tax profit or loss. As AC is proposing to limit the disclosure to analysing the AFS debt instruments impairment charge in the income statement between items (i) and (ii) above, this will remove the need for a reconciliation.

Question 3:

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt securities (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 proposed instead, and why?

If AC's suggested approach were followed, then paragraph 30A(b) would be limited to AFS debt investments and therefore paragraph 30A(b)(i) above would not be required as all the items would be carried at fair value

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 this 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 it so, why?

AC agrees with this proposal but, as outlined above, believes that the scope of any additional disclosures should in fact be narrowed to only relate to AFS debt instruments.

Question 5:

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

AC is of the view that requiring the disclosure for periods ending on or after 15 December 2008 is reasonable **if** the disclosures are restricted to AFS debt investments. If the disclosures were to extend beyond that, an approach which AC does not support, AC is of the view that the requirement is onerous given the short timeframe between finalising the amendment and entities' reporting deadlines. AC would suggest, instead, that the disclosures be optional for that period and then mandatory for periods ending on or after 30 June 2009, to allow sufficient time to gather the necessary information. It would appear from the roundtable discussions that certain preparers (as opposed to users) wanted to provide additional analysis of fair value changes, particularly in relation to impaired AFS debt securities. Allowing preparers the option of providing the additional information in 2008 relating to the AFS investments would appear sufficient at this point.

Question 6:

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

AC agrees with the transitional proposals if, as noted above, this requirement applies to AFS debt instruments only.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully,

Mark Kenny

Secretary, Accounting Committee