National Australia Bank

19 January 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir David

Exposure Draft on Investment in Debt Instruments and proposed amendments to IFRS 7

General Comments

We are pleased to respond to your invitation to comment on the above exposure draft.

Request for comments

Question 1 — Do you agree with the proposed requirement that entities should 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? If not, why?

We strongly disagree with the proposal.

The disclosure of pre-tax profit or loss, on debt instruments under both amortised cost and fair value through profit and loss would not provide users of financial information with any additional pertinent information. Entities are presently unable to vary measurement bases on most debt instruments from period to period. The only allowable measurement change is between available for sale and held to maturity, subject to certain conditions and tainting rules, and neither of these results in a profit or loss impact (unless realised).

To disclose a sensitivity analysis for a measurement option that is not available to the entity for those debt instruments during the reporting period is in our view of little or no benefit. It would not highlight potential impairments or write downs, as it would have no identifiable link to the investments held at reporting date. The current disclosure of fair value compared to carrying value provides adequate information to users in this regard.

Moreover, the additional systems and monitoring required to generate the information would be unreasonably onerous on entities, whilst providing minimal benefit for users. This would be particularly apparent in measuring fair value movements through the period on amortised cost debt instruments. It would effectively require the running of parallel systems to capture each measurement alternative on all debt instruments, a highly costly and inefficient measure to provide information of limited use. This is of particular concern in the current financial environment.

Question 2 — 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 discussed above for question 1, we do not agree that pre-tax profit or loss amounts that would have resulted applying alternate classification assumptions should be required disclosure. As such, we do not believe that reconciliations should be required between these two scenarios.

Question 3 — Do you agree with that, in applying paragraph 30A(b) of IFRS 7, entities should 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? If not, why?

We do not agree with the proposal.

The proposal provides limited additional disclosure to that already required by IFRS 7 paragraph 25. Presently entities are required to disclose the fair value comparable to carrying amount for each class of financial assets and financial liabilities. Where amortised cost is the measurement basis used for a debt instrument, the proposed disclosures are already required. For available for sale investments, the balance of the available sale reserve provides the relevant detail as to the difference between fair value and amortised cost at reporting date of the debt instruments. Any further disclosures surrounding these differences would be excessive and provide little additional benefit.

Question 5 – Do you agree with the proposed effective date?

We do not agree with the proposal.

The Australian Accounting Standards Board (AASB) is restricted from issuing an IFRS equivalent Accounting Standard that requires retrospective application. Australian companies with reporting periods ending before the amendments are passed by the IASB could not be fully IFRS compliant in respect of these disclosures. This would also impact any US submissions by those Australian entities.

We suggest that any amendments should be effective from a date after they are approved by the IASB.

Notwithstanding the above comments, we broadly agree with the scope and transitional requirements of questions 4 and 6.

Please contact Anthony Braden on +61 3 8641 3965 or anthony.j.braden@nab.com.au if you need any further clarification.

Your sincerely

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