LIBA

LONDON INVESTMENT BANKING ASSOCIATION
6 Frederick's Place, London, EC2R 8BT
Tel: 020-7796 3606 Fax: 020-7796 4345
Direct: 020-7367 5507 E-mail: ian.harrison@liba.org.uk

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Submitted via the "Open to Comment" page at www.iasb.org.

Dear Sirs

Exposure Draft: Investments in Debt Instruments – Proposed Amendments to IFRS 7

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB's 23 December Exposure Draft: *Investments in Debt Instruments – Proposed Amendments to IFRS 7* ("the ED"). LIBA is, as you will know, the principal UK trade association for firms active in investment banking and securities trading; a list of our members is attached.

We appreciate that the proposals in the ED may be intended as an interim solution to some of the issues raised at the recent IASB/FASB round-table meetings, pending a more comprehensive revision of the treatment of impairment and a resolution of the issues identified in the Reducing Complexity Discussion Paper. While commending the IASB and FASB for working closely together on these issues, we feel the suggested approach will result in an increased level of complexity for many preparers and is therefore - as it currently stands - unsatisfactory as a short-term measure. We think these proposals require further analysis and debate if the Board wishes to proceed with an interim solution; alternatively, the changes could be delayed until the new classification and measurement framework for financial instruments has been developed.

A related concern is that the proposals require information that is not collected or reviewed by management; we see this as inconsistent with the general principle of IFRS 7 that disclosed information should be that used internally to manage the financial instruments.

We also have concerns over the way in which these proposals have been brought forward:

- we do not believe that this issue is of sufficient urgency to warrant the suspension of normal due process - a 23 day consultation period would be very tight under any conditions, and becomes quite unreasonable when it includes (for much of the world) an extended holiday period; and

- the proposed retrospective effective date will make it very difficult for preparers to get the requisite information.

Our detailed responses to the questions set out on pages 5-6 of the ED are set out below.

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, at least as it is currently drafted. Some of our members have in the past supported further disaggregation of impairment losses for AFS debt instruments between the incurred loss portion and the remainder for presentation purposes, with only the incurred losses being recognised in profit or loss. However, other members feel that this is an artificial split.

At a more specific level:

- it is not clear to us that the disclosures will achieve increased transparency in respect of impairment; we think there is a risk that the additional complexity may actually obscure the information which users would find helpful;

- the need to choose, in determining cost based P&L, whether to use a LIFO, FIFO or weighted average basis will significantly reduce the comparability of such disclosure;

- the impact of any hedges would not be apparent as the suggested requirement would apply only to those instruments which meet the criteria set out in sub-paragraph (a) i.e. the impact of any economic hedges which are not debt assets, for example financial guarantees, would not be captured by this disclosure and so the profit and loss balance would be incomplete and potentially misleading; further, the amendments do not address whether the impact of hedge accounting needs to be unwound when preparing this disclosure;

- the proposed amendment should include a definition of a debt instrument so as to make it clear which instruments are included within the scope of the proposal, particularly AFS debt securities, HTM Debt Securities and loans/receivables not currently at fair value;

- the definition should also clarify whether the proposed requirement covers debt instruments that were sold during the reporting period or only those still held at the end of the reporting period;

- many of our members do not monitor the P&L impact that would arise if the loans and receivables or AFS instruments were to be classified at fair value through the profit or loss, and so do not maintain the information necessary to generate these disclosures.

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 we do not agree with the proposal for P&L disclosures under alternative classification assumptions we do not see the need for a reconciliation. If, however, the other disclosures were to be required then such a reconciliation could be helpful to users, but its preparation would be onerous and certainly not compatible with the proposed effective date.

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 believe this additional disclosure would provide only very limited new information to professional analysts, and we would therefore question whether it is worthwhile.

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 to exclude investments in debt instruments classified at fair value through profit or loss from the proposed disclosures.

The additional disclosure would not be meaningful for these investments which are managed on a fair value basis. The information is unlikely to be available as it is not used by the management of the entity. In our opinion the costs of producing the disclosure greatly outweigh any benefit in producing it.

Question 5
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

The proposed effective date would require entities with a 31 December year end to produce this information for 2008 year end, when the ED does not even close for comment until 15 January. We believe this rush to implementation to be unnecessary and, perhaps more importantly, inconsistent with proper due process. At a more practical level, moreover, many preparers do not have the systems set up to generate this information, and retrospective generation would therefore cause serious practical problems.

Question 6

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

If, despite our concerns set out in the response to the previous question, such changes are to be implemented forthwith, we agree that comparative information for prior periods should not be required.

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I hope these comments are helpful. We would of course be pleased to expand on any points which you may find unclear, or where you would like further details of our views.

Yours sincerely

Ian Harrison
Director

LONDON INVESTMENT BANKING ASSOCIATION

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Arbuthnot Latham & Co., Limited
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Barclays Capital
Bear, Stearns International Limited
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