SwissHoldings

Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

16 January 2009

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Exposure Draft – Investments in Debt Instruments

Dear Madam, dear Sir

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 49 Swiss groups, including most of the country's major industrial and commercial firms. We very much welcome the opportunity to comment on the above-mentioned Exposure Draft (ED). Our response below has been prepared in conjunction with our member companies.

Although we acknowledge that the current economic crisis may justify unusual actions, we are still rather surprised by the Board's short due process period in order to introduce amendments in respect of additional disclosures on the valuation of debt instruments and also that they are to be taken into account in the 2008 reporting cycle. Several of our member firms will be publishing their Annual Reports as you read this letter! We support the view of increasing disclosures on commonly accepted and applicable standards where they lead to additional meaningful information. However, if this short time for commenting on Exposure Drafts is to continue then we believe that the fundamental due process approach should be reconsidered by the Board. A newly introduced requirement, introduced without due reflection, could even harm the reputation of IFRS in its quest of producing high quality accounting solutions for the world. It is therefore regrettable that the IASB in conjunction with the FASB, is reacting with such haste to propose these isolated amendments. In addition, as a matter of principle, the application of standards should not be back-dated and especially, as in this case, not so close to year-end reporting dates. Despite this, please find below our comments to your invitation to comment on the ED:

Specific questions in invitation to comment

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 introduce the requirement to disclose the pre-tax profit or loss under so-called assumptions or scenarios which assume that the financial instruments would have been classified in other categories than the ones they are assigned to. The current standards are rightly drawn from a mixed measurement approach to address the diversity of financial instruments and their application. The mixed measurement approach also recognizes that not all financial instruments are managed on a single fair value basis or are

Postfach 402, 3000 Bern 7
Tel. +41 (0)31 356 68 68
sh@swissholdings.ch

Nägeligasse 13, 3011 Bern
Fax +41 (0)31 352 32 55
www.swissholdings.ch

even capable of reliable fair value measurement. As also outlined in our response to the Discussion Paper on “Reducing Complexity in Reporting Financial Instruments”, we believe, where an entity does not manage instruments on a fair value basis, other measurement concepts are more appropriate to estimate and reflect future cash flows. If it is an entity’s intention to achieve stable income and cash flows earned from financial instruments on an ongoing basis and over time, we think that the presentation of a faithful economic picture of that entity does not require recognition of market value changes – other than impairment charges – over the life of the financial instrument in its income statement. Recipients of financial information are better served through financial statements being prepared and presented on the basis that best reflects the earnings flows that the different classes of financial instruments will generate. Moreover the different valuation principles are determined in the accounting policy section of the notes to the financial statements, consequently users are aware of different valuation methods for the several financial instrument categories and we expect that users will be capable to note the variances due to the underlying measurement models. In accordance with existing IFRSs, every category of financial assets is either carried at fair value in the balance sheet or else require the indication of their fair value, if measured at amortised cost. So users of financial statements are already provided with transparent information on the fair values of financial instruments.

Once an entity has taken its decision on which business model best meets its financial objectives, the respective financial instruments should be designated and valued accordingly. Such a decision is reflected in the financial statements and interested users can see this. If one now starts to present alternatives through these proposed measurement scenarios, we consider that the robustness of presentation of the financial statements will suffer and will introduce confusion as to the quality of the presented results. We also fear that alternative measurement presentations will implicitly question management’s decisions on the entity’s appropriate business model and financial strategies. It will also give rise to all kind of interpretations. Consequently, we are not convinced that the proposed additional disclosures are necessary and will enhance financial reporting.

Moreover, the proposal only addresses certain financial instruments. If, for example, an entity has designated all its marketable securities as available-for-sale, users already have access to the related unrealized gains and losses deferred in equity including also equity instruments – not only debt instruments – as this is already required to be disclosed and presented to stakeholders. So we do not see the relevance of presenting hypothetical values for only a portion of the assets in question. It might even be potentially misleading to increase the focus on debt instruments only.

In addition, from a definition point of view, we urge the IASB to define the terms “debt instruments” and “investments” prior to finalizing the amendments. As far as we have been able to discern, “debt instrument” and “investment” are not defined terms in IFRS.

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 support the requirement for a reconciliation between a so-called “official” profit and loss figure based upon the investments measured according to their designated classification and a “virtual” measurement scenario. We believe the reconciliation would lead to unacceptable additional efforts to produce these reported figures and will require changes to software applications and systems. Moreover users will be confronted with a need to interpret the two sets of figures and it will result in an undue focus on only part of comprehensive profit or loss, creating the danger that they will base their analysis on amounts which diverge from IFRS requirements and which will not reflect the actual economics of the entity's or management's performance.

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 proposals? If not, why? What would you propose instead, and why?

We believe that such disclosure requirements are far too excessive for a representative part of preparers in many non-financial service industries. We also doubt whether comparability among preparers would be assured, as:

- Fast-close preparers or filers, might not even be able to adopt completely the finally approved amendments, if introduced, due to the late decision on requirements;
- An accompanying EU endorsement will not be available and will interfere with timely implementation and add to the confusion;
- Quality data may not be available for the implementation of the amendments and for data collection due to constraints with the systems in use;
- Differing views on the new requirements among auditors and regulators.

Furthermore, if such disclosures do get introduced then we suggest that amendments are made for the following point. Financial instruments are already fair valued if they are classified as either held-for-trading or as available-for-sale in the statement of financial position. Why does this carrying amount in the statement of financial position have to be compared again with the fair value of these financial instruments as required in paragraph IG14A of the guidance on implementing the ED? Moreover, we do not perceive any additional information benefit from comparing these values with the equivalent amortised cost based valuation. This comparison is especially irrelevant if any reclassification of those assets to an amortized cost basis scenario is out of question due to reasons such as adherence to tainting periods, investment and allocation strategies etc.

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?

Whilst in principle we support the idea of reducing the burden of additional disclosures for those entities just classifying debt instruments at fair value through profit and loss we also consider that an exemption should be available for those entities just treating debt instruments as available-for-sale since also in this case they are fair valued with the only difference that part of the fair value change is recorded in other comprehensive income. The additional disclosure concerning the switch from a fair value basis to amortised cost should be the same for both approaches. Either an exemption for calculation of amortised cost should be available for both of these approaches – this is clearly our preferred option – or the requirement to produce a theoretical amortised cost calculation should be required for both so that users would be able to compare the statement of financial impact to those entities using the amortised cost method. Under the available-for-sale method, entities are not currently required at all to maintain amortised cost based information. Consequently, the scope of the proposed disclosures would also be extremely onerous in respect of these financial assets and of no value to the entity, so we suggest that entities applying the available-for-sale category only should also be exempted from the proposed disclosure requirements.

Question 5

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

As already mentioned above, we fail to understand the need for a back-dating of the effective date. We expect a coordinated introduction of additional financial instrument disclosure requirements under IFRS 7 through a combined exposure draft for the amendments on the several enlargement topics on additional information to be disclosed (liquidity risk, fair value measurement categories, debt instruments, if introduced).

Question 6

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

In order to be able to better judge the urgent need of additional disclosures of investments in debt instruments, it would be worthwhile to know from whom and under what circumstances such a request to make these amendments was raised. Introducing disclosure requirements for a limited segment of financial instruments, stipulated through a standard, which will most likely be in force for years, produced under time pressure and outside of a comprehensive evaluation due process, introduces many risks and could potentially harm the reputation of IFRS. We therefore disagree with the proposed effective date and transition requirements for this ED.

Should you wish to further discuss the points raised in this letter, we would be happy to do so.

We thank you for the opportunity to contribute to the due process and for taking into consideration our comment.

Yours sincerely,

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

P. Baumgartner Delaufer

Dr. Peter Baumgartner | Denise Laufer
Chairman Executive Committee | Economist

cc SH Board