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AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear Sir David,

As a member of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the ED Investments in Debt Instruments (proposed Amendments to IFRS 7). Due to the very narrow timeframe AFRAC was not able to make a due process, which is necessary for the preparation of an official AFRAC comment letter, but my findings were discussed with many participants and other interested parties, thus the letter does not conclude my private point of view only. This discussion not being able to be held in the degree of profundity, which is needed to see all impacts of the proposed changes in advance, our remarks are a snap-shot of ongoing detailed discussions.

Our understanding is that the ED proposes additional disclosure requirements for all investments in debt instruments which are not categorised as at fair value through profit or loss. We understand that the purpose of the proposed disclosures is to enhance comparability between investments in debt instruments held within and by different entities/groups, by providing the information needed to adjust results on to a more consistent basis regardless of how the debts instruments are classified. The proposals will force companies to disclose the (consolidated) profit or loss that would have been recorded if all financial assets (other than those categorised at fair value through profit or loss) had been measured using amortised cost (i.e. using an incurred loss model) or all had been measured using fair value. The ED also proposes that the disclosures requirements will be effective for annual periods ending on or after 15 December 2008. The ED was issued on 23 December 2008, with a 23 day comment period—much of which is a holiday period in the northern hemisphere. FASB is proposing similar changes to US GAAP.

Our first general remark – before discussing at least some aspects of the ED in more detail – is, that from our point of view a part of the information required in p. 30A lit b) of the ED is already part of the disclosure requirements of the existing standards, whereas the information required in p. 30A lit a) will bring the duty to calculate, audit and disclose three different figures for the (consolidated) pre-tax profit, which will definitely not enhance comparability of annual reports or fulfil the user´s needs.

Practically, from our contacts with the various industries we got the information and impression, that companies seem hardly to be able to fulfil the demand to disclose the new part of the information required in p. 30A lit b) - the value of all debt instruments as if they had been accounted for at amortised cost - , because this requirement was never a information needed, neither for controlling nor for reporting purposes, and thus the data are not available soon.

Additionally, the requirement in p. 30A lit a) of the ED, to calculate the pre-tax profit as if all debt instruments, which are not classified as at fair value through p&l, hat been a) classified as at fair value through p&l and b) accounted for at amortised cost implicitly includes the duty to recalculate all transaction during the reporting period in order to fulfil this requirement, starting with an reclassification/remeasurement at the beginning of the reporting period in order to start with the correct value. This is an additional serious burden for the companies which does – from our point of view - not bring an adequate added value for the user.

Our second remark is, that believe the IASB should not proceed with them at the pace and with the implementation timetable that is proposed, enacting this amendment for annual periods ending on or after 15 December 2008. We do not believe the proposed disclosures are as urgently needed as that timetable implies, and in any case we believe the issues involved – especially some questions regarding consolidation issues, e.g. measurement of associated companies which are accounted for using the at equity-method, reporting foreign currency transactions, elimination of intra-group transactions - are complex and that more time is required for all parties — standard setters as well as users — to evaluate properly whether the disclosure amendments achieve the objective they should.

Our greatest concerns about this timeframe lay within the practical application on a group-wide basis, which cannot be assured in a time, most groups are already within the finishing process of their consolidated statements, not being able to implement new group-wide data requirements and calculate three different (consolidated) pre-tax figures, which will probably require to start with new 2007 yearend figures. However, if a group is not able to provide these information in its 2008 (consolidated) financial statements – not taking into account the time necessary for the EC-endorsement process – this can question the unqualified opinion of the auditor, which is contrary to the international efforts, in which IASB participated, to strengthen the trust in the financial statements in times of financial turmoil.

Furthermore, backdating an effective date is problematic for jurisdictions that require legal endorsement of any changes to IFRS before they can be applied. If the IASB chose a later effective date, those entities that wish to and are able to provide the disclosures earlier could still do so.

Adding up, because of the complexity of the underlying issues and the very short comment period and thus not being able to fully evaluate the new disclosures proposed we are not in a position to comment on whether we would support them if the implementation timetable were eased. However, we strongly warn to implement this ED without further analysis.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Roland Nessmann
Member