Memo

FirstRand Banking Group

Group Finance : Technical Accounting

To: International Accounting Standards Board
From: Technical Accounting
Date: January 2009

COMMENT LETTER: EXPOSURE DRAFT – INVESTMENTS IN DEBT INSTRUMENTS PROPOSED AMENDMENTS TO IFRS 7

1 Introduction

Please see below our general comments as well as our responses to the specific questions contained in the invitation to comment in respect of the proposed amendments to *IFRS 7 Financial Instruments: Disclosures* ("IFRS 7").

We thank the Board for the opportunity to comment on the exposure draft.

2 General comments

While we support the Board's initiatives to address any perceived accounting deficiencies in response to the current market conditions we are not sure that the exposure draft as it currently stands reflects the Board's objectives and intentions in a clear and concise manner. Our understanding of the proposed amendments is that the amended disclosure will highlight to the user the effect on the income statement of not measuring all financial instruments at fair value through profit or loss.

Assets classified as available for sale, loans and receivables and held to maturity in terms of *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39") are the main types of assets to which this requirement would be applicable. Available for sale assets are already measured at fair value but with changes in fair value being allocated to equity and not to profit or loss. In order to determine the potential profit or loss effect one would need to reclassify the current year reserve movement to profit or loss. IFRS 7 paragraph 25 currently requires the disclosure of the fair value of financial assets measured at amortised in a manner comparable to their carrying value. This requirement provides information on the fair values of financial assets classified as loans and receivables and held to maturity. This information can be used to deduce the potential profit or loss effect had these assets been measured at fair value. We therefore believe that the proposed amendments do not result in the disclosure of any additional or new information but rather a different presentation of information which is already available to users of the financial statements.

The proposed amendments also require disclosure of amortised cost information in respect of available for sale financial assets. The income statement already reflects the interest earned at the effective interest rate and any impairments on these assets, which is the same income statement effect as amortised cost. The balance sheet amortised cost value of available for sale financial assets is simply the carrying value on the balance sheet plus or minus the reserve in equity, again all information readily available in the financial statements and calculations which users themselves could make with relative ease.

We therefore question the necessity of such hasty amendments if much of the information is already provided in the annual financial statements.

We have had a number of consultations both internally and within the various industry groups in South Africa and we have noted that there are a number of differing interpretations relating to the scope of the amendments, particularly the definition of the term "investments in debt instruments". We note that the exposure draft does not provide a definition of what the Board considers to be investments in debt instruments and other IFRS literature does not provide guidance on this either. We strongly believe that in the absence of a definition differing interpretations by different entities and their auditors will strongly compromise comparability of the disclosures required.

In general we also note that the current market conditions have been the catalyst for a number of changes to IFRS 7 over the past few months, including changes on disclosure relating to:

- Reclassifications;
- Fair value;
- Liquidity; and
- Debt instruments.

We also expect that as more information comes to light additional amendments may be made over the course of the next year. It is our concern that because many of these amendments are being made in isolation that once all of the amendments have been made and consolidated into the standard, the standard may become unstructured and illogical. We would ask the Board to consider the structure of the overall standard when making these amendments or that the Board undertakes a project to relook at the structure and logical flow of the standard in 2010 once they expect that all the amendments required by the current market conditions have been made.

It is our overall recommendation that the Board reconsider the necessity of these proposed changes in light of the fact that much of the information is already required and disclosed. We would recommend that the Board consider a medium term project to re-look at the requirements of IFRS 7 in their entirety and in a single amendment make clear, concise and valuable amendments to IFRS 7, which provide decision useful information to the users; accurately reflect the intentions of the Board and limit the number of arbitrary interpretations required from prepares and their auditors.

3 Answers to specific questions

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 the proposal? If not why? What would you propose instead, and why?

While we are not opposed to the amendment, as mentioned above we believe that most of this information is already available in the financial statements and no amendments are necessary to IFRS 7 for the users to be able to determine the theoretical profit numbers described above.

Should the Board believe it is important that these numbers are presented we would recommend expanding paragraph 25 of IFRS 7 to require a profit or loss aspect as well rather than the creation of a new requirement.

Question 2

The exposure draft proposes to require disclosing 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, what and what level of detail should be required for such reconciliations?

We don't not believe such a reconciliation is necessary. However if the Board does decide that such a reconciliation is necessary we don't believe that the proposed effective date will give entities sufficient time to collate the necessary information.

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 the proposal? If not, why? What would you propose instead, and why?

While we do not disagree with the proposal we note that for these instruments there is a significant overlap between this requirement and the requirement of paragraph 25 of IFRS 7. We are concerned that with the number of amendments being made to IFRS 7 at this time, if due consideration is not given to potential over laps the standard may become unstructured and will lack cohesion and logical order.

We also note that in some kind of fair value hedges an entity can elect to hedge only a certain risk inherent in an instrument for example interest rate risk. The hedged item will therefore be carried at an amount that is neither fair value nor amortised cost as it will be fair value only to the extent of the hedged risk. We note that the current IFRS 7 requirements would require disclosure of the full fair value of the hedged item and that the proposed amendments will require additional amortised cost disclosure for the instrument as the instrument is not classified at fair value through profit or loss. We don’t believe that amortised cost information in respect of assets which have been hedged provides useful information to the users of the financial statements. We note that much of the basis of conclusions to the proposals focuses on amortised cost disclosure for available for sale financial assets and we are concerned that this is an unintended consequence.

Based on the above it is our recommendation that the Board consider amending paragraph 25 of IFRS 7 to require the amortised cost to be provided for debt instruments classified as available for sale. We believe that this would provide the same additional information to the users of the financial statements as proposed by paragraph 30A(b) without changing the structure and flow of IFRS 7.

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 Board’s proposal.

Question 5

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

Because of the extent of information proposed by the amendments already available in the financial statements and the deliberations which may be required to determine the definition of investment in debt instruments we don't believe that such a degree of haste as proposed by the exposure draft is warranted.

Question 6

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

We agree in full with the Board's proposal to not require comparatives for these disclosures because of the short lead time and would like to re-iterate that the Board consider adopting this approach for the amendments to the fair value and liquidity disclosures as per our comment letter of 15 December 2008.