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January 26, 2009

Ms. Liz Figgie
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms. Figgie:

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

The Canadian Bankers Association[1] (CBA) would like to thank the International Accounting Standards Board (IASB) for the opportunity to comment on the exposure draft "Investments in Debt Instruments (Proposed amendments to IFRS 7)".

We appreciate the Board's ongoing efforts to act swiftly in dealing with accounting issues that have arisen from the credit crisis in the financial markets and to address concerns raised by participants in the recent round-table meetings organized by the IASB and the U.S. Financial Accounting Standards Board (FASB).

Overall, we disagree with the proposal to provide additional information regarding debt securities. This information does not achieve one of the key objectives of financial reporting, which is to allow investors to assess management performance. In order to be useful, the financial statements must clearly present the impact of both external factors and the results of management decisions. This information would not convey these impacts.

Under the current mixed-model approach, which is a blend of amortized cost and fair value, instruments managed on a non-trading basis are reflected at amortized cost less impairment as opposed to fair value. Banks earn income on their non-trading book by earning more interest on these assets than they are required to pay on the related liabilities. The recognition of net interest margin (the ratio of net interest income to earning assets) is a key measure used by management and investors to assess the bank's performance. In providing proforma information that demonstrates the impact of management holding debt securities for trading purposes, management's intent is lost. We do not believe that this is useful.

[1] The Canadian Bankers Association works on behalf of 51 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 249,000 employees to advocate for efficient and effective public policies governing banks and to promote an understanding of the banking industry and its importance to Canadians and the Canadian economy.

The potential lack of comparability between entities who may account for debt instruments differently is justified as the financial statements of two entities that have different business models and strategies should reflect these differences. Relevance and reliability are essential to ensure that the financial statements remain useful.

If the proposals were adopted, we have prepared responses to the specific questions contained in the exposure draft ("ED") and these are included in Appendix A. If you have any questions concerning our comments or suggestions, we would be pleased to discuss them.

Sincerely,

Cc: Paul Cherry, Chair, Accounting Standards Board
Robert H. Herz, Chair, Financial Accounting Standards Board

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 amortized cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Paragraph 30A(a) proposes additional disclosures to address concerns raised by participants at the round-table meetings on the differences in the impairment model used for debt instruments classified as available-for-sale (AFS), and the impairment model used for debt instruments classified as loans and receivables (LAR) or held-to-maturity (HTM). Although these disclosures will not address the question on whether impairment loss should be based on (i) the entire fair value decline of an asset which is the impairment model for AFS debt instruments; or (ii) the loss that has been incurred due to the default of the debtors on their obligations which is the impairment model for LAR and HTM, they will provide the necessary information for users to assess the impact on debt instruments held by an entity based on users' own view of impairment loss. In doing so, we believe the disclosures should reflect the incremental impact to the pre-tax profit or loss of the entity if all investments in debt instruments (other those classified as fair value through profit or loss "FVTPL") were classified under the two categories. For example, if an impairment loss has been recognized in the period for an AFS debt instrument, that impairment loss should not be included in the amount to be disclosed under "Pre-tax profit or loss" when the AFS debt instrument was classified as FVTPL or accounted for at amortized cost, as to do will be 'double-counting' the impact. Therefore, we propose the following amendment to paragraph 30A(a):

30(A)(a) <u>impact to</u> pre-tax profit or loss <u>net of amount recognized in income in the current period</u> as though the instruments had been:

(i) Classified as at fair value through profit or loss; and
(ii) Accounted for at amortized cost.

As a result of this proposed wording change to paragraph 30A(a), we recommend to clarify the terms used in the first table in IG 14A to align with the revision. We will also consider disclosing the impact to pre-tax profit or loss in each scenario disaggregated by the classification of debt instruments to align with the presentation used in the second table of IG 14A.

Investments in debt instruments (other than those classified as fair value through profit or loss):

	20X1 Impact on Pre-tax profit or loss net of amount recognized in income, in each scenario CU million
If all investments in debt instruments had been classified as financial assets at fair value through profit or loss	
Loans and receivables	X
Held-to-maturity investments	X
Available-for-sale financial assets	X
	X
If all investments in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for at amortized cost	
Loans and receivables	X
Held-to-maturity investments	X
Available-for-sale financial assets	X
	X

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 reconciliation?

We do not believe that reconciliations between the profit or loss and the profit or loss that would have resulted under the two scenarios should be required as we do not foresee any additional benefit in providing such information. With the additional information provided in paragraph 30A(a) on the net impact to pre-tax profit or losses under the two categories, users should have sufficient details to assess the difference between the financial results as reported relative to those under the 'what-if' scenarios.

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) amortized cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Consistent with our comments for paragraph 30A(a) and users' desire for details on debt instruments for impairment assessment, we appreciate the proposal in paragraph 30A(b) to require entities to disclose a summary of the different measurement bases for all investments in debt instruments. However, in applying this paragraph to an AFS debt instrument which is required to be reported at fair value, the same value will be reported under 30A(b)(i) "the carrying amount in the statement of financial position", and 30A(b)(ii) "fair value". Similarly, a HTM debt instrument will report the same value under 30A(b)(i), and (iii) "amortized cost" unless it has previously recorded an impairment. Therefore, it is unclear how the proposed disclosures will effectively 'permits comparison' as stated in paragraph 30A(b).

We also noted that the proposal fails to address one of the advantages of disaggregation of fair value as mentioned by participants at the round-table meetings, that "there could be scenarios where an increase in fair value attributable to a decrease in the risk-free interest rate partially or totally offsets an impairment loss on the basis of the incurred loss model. An entity would not recognize a part or all of that impairment loss in accordance with the impairment approach for AFS instruments because a decline in fair value is a prerequisite in addition to objective evidence for impairment. Disaggregation would reveal such impairment losses that are currently not transparent"[2]. The proposed disclosures in 30(A)(b) does not require disclosures on measurement basis based on present value of estimated future cash flows, which would be need for impairment assessment of AFS debt instruments if they were classified under LAR or HTM and accounted for at amortized cost. As a result, we recommend the following changes to paragraph 30A(b) in order to permit comparison of information:

30(A)(b) the following amounts in a way that permits comparison of <u>the carrying amount in the statement of financial position with</u>:

(i) Fair value;
(ii) Amortized cost; and
(iii) <u>Present value of estimated future cash flows</u>

An entity shall provide the information required by this paragraph in tabular format.

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[2] Source: background information for December 2008 Board Meeting on IAS 39 *Financial Instruments: Recognition and Measurement* project, agenda paper 6A1.

We also recommend the following changes to the second table in IG 14A to reflect the changes for paragraph 30(A)(b). We believe these changes will facilitate comparisons of information by users of financial statements.

Investments in debt instruments (other than those classified as at fair value through profit or loss):

	31 December 20X1			
	Fair value	Amortized cost	Present value of estimated future cash flows	Carrying amount in the statement of financial position
Investments in debt instruments classified as :				
Loans and receivables	x	x	x	x
Held-to-maturity investments	x	x	x	x
Available-for-sale financial assets	x	x	x	x
Total	x	x	x	x

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 to exclude investments in debt instruments classified as at FVTPL from the scope of this proposed amendments to IFRS 7. As indicated by the Board, entities are not required to maintain amortized cost-based information for those instruments. Extending the amendments to those instruments would require entities to track the amortized costs for these items, a requirement that may potentially result in substantial costs and efforts to entities.

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

The effective date of the additional disclosures as proposed in the ED for annual periods ending on or after 15 December 2008 should be feasible for entities as information on fair value and amortized cost are already captured by entities for fair value disclosures under IFRS 7 and for impairment assessment for LAR and HTM under IAS 39 *Financial Instruments: Recognition and Measurement*. However, if the disclosures are to reflect our proposed change to paragraph 30A(b)(iii) on present value (PV) of estimated future cash flows, entities will need time to estimate the PV for their AFS debt instruments as they normally are not required to determine such value. Entities generally will only have PV for debt instruments classified as LAR or HTM. Depending on the efforts required by the entities to derive the PV information and timing of the filing or issuance of their financial statements, the proposed effective date may not provide sufficient time for entities to gather the information.

Question 6
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

We agree with the proposed transition requirements that comparative information relating to periods before the date of initial adoption is not required as preparation of comparative information will create further strains to entities costs and resources when they are already required to implement the changes with short lead time.