BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

VIA EMAIL: commentletters@iasb.org

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
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15 January 2009

Exposure Draft – Investments in debt instruments: Proposed amendments to IFRS 7

Dear Sir David

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on the International Accounting Standards Board's (IASB's) Exposure Draft – Investments in debt instruments: Proposed amendments to IFRS 7 (ED). The Committee has a strong interest in high quality financial reporting by banks and has carefully analysed the ED, which is intended to promote greater transparency over impairment losses on debt instruments and is intended to be consistent with proposed accounting guidance recently issued by the US Financial Accounting Standards Board (FASB).[1]

We appreciate the IASB's commitment to strengthen transparency and harmonise International Financial Reporting Standards (IFRS) with US generally accepted accounting principles (US GAAP). In our view, the IASB and FASB proposals represent an interim step in the broader effort to gain greater consistency between IFRS and US GAAP and to address complexities related to recognition and measurement of financial instruments, including accounting for impairment. We encourage the boards' on-going efforts in this regard and look forward to providing additional input on these work streams. From a general point of view, we believe that disclosures are relevant when they help users to understand the way instruments are effectively managed and accounted for.

More specifically, we note that the two proposals include divergent terminology that could lead to differences in interpretation and application in practice. This could be confusing for preparers and users of financial statements. As currently proposed, the amendments require disclosure of an instrument's "amortised cost." We note that disclosure of amortised cost (based on the definition provided in paragraph 9 of IAS 39) may not result in the intended disclosures; including, for example available-for-sale (AFS) securities with recognised impairment losses or

[1] On 24 December 2008, the FASB issued a proposed FASB Staff Position designed to amend the required disclosures within its Statement No. 107, *Disclosures about Fair Value of Financial Instruments.*

related reversals through profit and loss. Specifically, it is unclear from the ED what impairment model should be applied in disclosing the value of AFS securities at amortised cost. We suggest that the IASB consider revising the required disclosures of the amortised cost amount to the "incurred loss amount," which could be described as the reported or pro forma carrying amount of the investment under an incurred loss model. For loans and receivables, the amount would represent the carrying amount based on existing accounting policies under IAS 39. For a debt security classified as AFS, the amount would represent the present value of expected future cash flows discounted at the security's effective interest rate.

To provide greater transparency over required quantitative disclosures, we suggest that the IASB consider requiring qualitative disclosures such as those proposed by the FASB, for example: financial asset accounting policies, methodologies for estimating key inputs used to measure the incurred loss, and descriptions of factors causing differences in measurements for the quantitative disclosures.[2]

Given the widespread interest in disaggregating impairment loses recognised on available-for-sale (AFS) debt instruments between that due to post-origination reductions in expected cash flows, and other (generally market-related) factors, we recommend that such an analysis should be explicitly required for disclosure purposes. The market-related element can be calculated as the difference between fair value and the incurred loss amount, but the 'credit' element could be calculated by users only if the total amount of impairment on AFS debt instruments is disclosed – and that is not currently a requirement in IFRS 7. Furthermore, we recommend the Boards' longer term efforts include consideration of required analysis for impairment based on 'credit' and 'market' factors for all financial instruments.

Although suggested in the statement of financial position portion of the disclosure example in paragraph IG14A, the proposal does not specifically require entities to disaggregate information based on classification (eg instruments classified as AFS, held-to-maturity, or loans and receivables). We encourage the IASB to consider such a requirement, as this added granularity could provide decision-useful information. Furthermore, we recommend that the IASB reconsider its requirement of disclosures of pre-tax profit and loss amounts under the two scenarios as this disclosure does not take into consideration business models and ways operations are managed. If the IASB decides to maintain this information, it should consider a requirement for consistent disaggregation of disclosures of pre-tax profit and loss amounts based on the classification in the statement of financial position to determine whether such disclosures would be decision-useful.

We do not have any objections to the effective date and transition proposals, but encourage the IASB and FASB to ultimately adopt consistent requirements in this regard.

These comments have been prepared by the Committee's Accounting Task Force, chaired by Sylvie Mathérat, Director of the Bank of France, and have been

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[2] See paragraph 13 of proposed FASB Staff Position No. FAS 107-a.

approved by the Committee. The Committee trusts that you will find its comments useful and constructive.

If you have any questions regarding our comments, please feel free to contact Sylvie Mathérat (+33 1 4292 6579), Ian Michael (UK FSA), who chairs the Financial Instruments Practices Subgroup of the Accounting Task Force (020 7066 7098), or Linda Ditchkus at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely

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