

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

15 January 2009

Dear Sir/Madam,

Re: Comments on IASB Exposure Draft *Investments in debt instruments*

Mazars welcomes the opportunity to comment on the Exposure Draft *Investments in debt instruments-Proposed amendments to IFRS 7*. We appreciate that the IASB has undertaken a series of actions in response to the financial crisis, at the request of constituents notably the European Commission.

However we are of the opinion that the IASB should not continue with the proposals made in the Exposure Draft (ED) for the main following reasons:

- Nature of the proposals compared to the constituents' requests;
- Pace of the proposals;
- Difficulties created by retrospective application.

Nature of the proposals compared to the constituents' requests

We understand that a number of preparers have asked for urgent changes to the rules applicable to the impairment of debt instruments classified as available for sale (AFS) while a number of users, although not supporting such changes, considered it useful to get enhanced disclosures about impaired debt instruments in order to disaggregate the impact of reduced expected future cash flows from other impacts.

As this ED not only enhances disclosures on impaired debt instruments but also extends these disclosures to all debt instruments, we do not favour it. Indeed, it may appear on certain aspects as an indirect way to introduce full fair value accounting through disclosures. As this issue is one of the major ones that are discussed in the recent Discussion Paper *Reducing complexity in reporting financial instruments* (DP) we do not support such an indirect introduction. Moreover, as one of the purposes of the proposed disclosures is to enhance comparability between investments inside a single entity and between entities, we think that this assumption is questionable as what makes reporting financial instruments comparable is not clear in view of the responses to the DP (is it a single measurement basis (supposedly represented by the fair value measurement model) or a measurement that reflects the business model?)

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In our understanding, the reasons for the request by a number of preparers to change the impairment rules in order to disaggregate the “incurred loss” from the remainder was that similar instruments were subject to different impairment rules depending on their classification and that rules applicable to AFS debt instruments were overstating the losses incurred by taking into account changes in credit spreads in addition to changes in expected future cash flows. As impairment is a complex issue that is worth being reviewed both in terms of IFRS requirements as a whole and in terms of comparability between IFRS and US GAAP we agree with the Board’s view that such a change to IAS 39 would take time even if treated in an urgent way. We do not consider that concentrating on disclosures is an acceptable alternative to reviewing rules that many consider to be flawed. On the contrary we consider that both impairment rules and disclosures should be dealt with at the same time.

Considering the proposals in the ED to require entities to disclose the pre tax profit or loss as though all investments in debt instruments (other than those classified 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, we strongly disagree with them as:

- Disclosing a profit or loss on financial instruments that does not take into consideration the business model of the entity is misleading. Moreover, disclosing three different levels of profit or loss depending on the measurement assumptions will not in our view contribute to restore public confidence in the financial information issued by public entities, especially banks;
- The profit or loss disclosed under each scenario does not take into consideration the impact of the hedges that the entity entered into. Thus the information given is partial and gives no fair view of the way the entity is conducting its operations.

Pace of the proposals

We note that this ED has been issued with a very short period for comments (23 days including the Christmas holiday period). As discussed above we consider the issue of improving financial instruments impairment rules as being worth a full due process (even if accelerated) as it is a complex one. While some aspects of the proposed ED might satisfy the requests made by users and preparers in terms of disaggregated information on impairment of debt investments, we believe that such aspects should be part of a broader and more comprehensive project on financial instruments.

Retrospective application

Should the Board decide to proceed with the proposed ED, we are concerned with the proposed retrospective application to annual periods ending on or after 15 December 2008.

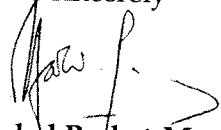
As most complex groups, in particular banks, close their accounts as of 31 December, most of them might issue their financial statements close after the publication of the amendment in January 2009. Thus gathering the information necessary to fulfil the requirements of the proposed amendment will create operational difficulties, especially as these information need to be auditable. Therefore we do not support such compulsory retrospective application.

In conclusion:

- We disagree with the proposals in the ED as we fundamentally consider that the proposals and questions raised should form part of the *broader issue of reviewing the impairment requirements and related reclassification issues* mentioned by Sir David Tweedie in his letter to the European Commission dated 17 December 2008;
- If, despite the issues raised by constituents, the IASB decided to proceed with the proposed amendments to IFRS 7 we strongly believe that it should not be made obligatory for application in 2008;
- As discussed above we are of the opinion that the disclosures should not be an indirect way to impose full fair value accounting or any new accounting model for financial instruments. Thus we do not support the proposals made in the proposed amendment to IFRS 7. However, due to the tight timetable, we have not fully evaluated the disclosures proposed and are therefore not in a position to answer the questions in the *Invitation to comment*.

We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information.

Yours sincerely



Michel Barbet-Massin

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