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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,

UBS appreciates the opportunity to comment on the Exposure Draft *Investments in Debt Instruments, Proposed amendments to IFRS 7 ("The Exposure Draft")*. We appreciate the IASB's initiative to address issues arising during these extraordinary market circumstances and are generally supportive of any proposals which enhance the usefulness of the financials statements. However, we do not believe that the proposals achieve this objective and are concerned by the haste in which they have been proposed. IASB Due Process procedures (paragraph 42) stipulate that only exceptionally urgent issues where there is likely to be broad consensus warrant a shortened comment period. We do not believe that the proposals meet this requirement. The Board should follow its normal standard setting due process and provide a reasonable time for review of proposals and adoption of amendments.

At the roundtable discussions that were held in response to the global credit crisis, constituents highlighted concerns with the impairment model for available-for-sale (AFS) debt instruments and requested a full review of the impairment model. Participants suggest that, as an interim solution, additional disclosures about such impairments would be useful. However, we do not believe that the proposals will provide the necessary information about impairment losses to achieve the objectives highlighted in the roundtable discussions. Overall, we do not believe that the proposals will provide meaningful information to users of financial statements. A fundamental review of the impairment model and related disclosures is necessary to address constituents concerns.

Our specific comments on the proposals outlined in the exposure draft are detailed below and in the appendix of this letter.

Scope
We have concerns with the scope of the proposals and request that the Board provide further clarification on which instruments are subject to the proposed disclosure requirements. The term 'debt instrument' is not explicitly defined in IFRS and we believe that lack of a formal definition could result in diversity in practice. Specifically, it is unclear if the term 'debt instrument' encompasses the whole of the loans and receivables category. IAS 39 paragraph AG26 provides guidance on the definition of loans and receivables and cites as an example investments in debt instruments that are not quoted in an active market. This could be interpreted to mean that such debt instruments are a sub-set of the loans and receivables category. Therefore originated loans, trade receivables, and bank deposits entered into in the normal course of business and classified as loans and receivable would not be considered investments in debt instruments. Exclusion of such instruments is inconsistent with Proposed FASB Staff Position (FSP) 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107.* Proposed FSP 107-a specifically includes in its scope all loans and long-term receivables that are not

measured at fair value through profit or loss. We believe that the Board should clarify the nature and types of instruments subject to the disclosure requirements. Clear application guidance should be provided to enable appropriate identification of investments in debt instruments.

Based on the nature of the information requested, we believe that the scope is limited to debt investments that are held at the balance sheet date. For avoidance of doubt, this is should be specifically stated.

Amortized Cost for AFS Debt Instruments
It is unclear if the amortized cost information in 30A(a)(ii) and 30A(b)(iii) should be provided as if the instrument had been measured under that basis since inception. Irrespective of any difference due to impairment, an amortized cost-based measurement for AFS instruments is not systematically maintained on an instrument-by-instrument basis and therefore accumulation of this information and compliance with the proposed disclosure requirements could require significant time and effort. With respect to impairment, the basis for conclusions highlights that IAS 39 requires different impairment measures for instruments carried at amortized cost than those classified as AFS. An impairment assessment calculated in accordance with IAS 39 paragraph 63 (financial assets carried at amortized cost) is not currently performed. Additionally, the cumulative amortization (calculated using the effective interest) determined as if the instrument had always been accounted for at amortized cost may not be currently available. Amortization amounts will differ for impaired assets depending on the underlying basis of accounting (i.e. fair value or carried at amortized cost). Accumulation of this information will require maintenance of two sets of books. The idea of maintaining and reporting the accrual value of financial instruments currently accounted for and reported at fair value lacks conceptual merit.

Effective Date
We do not support the proposed effective date. We understand that standard setters and regulators need the ability to address accounting concerns and improve transparency quickly during times of economic crisis; however changes that circumvent appropriate due process must be subject to serious cost/benefit considerations. As noted above, not all of the information requested is readily available and the proposed effective date will not allow sufficient time to implement the necessary system changes and data collection processes. The final standard should provide a reasonable period for implementation. If the Board proceeds with the proposals a one year delay of the effective date is necessary to enable appropriate system changes.

Responses to the specific questions raised in the exposure draft are included as an appendix. We hope you find these comments useful. If you would like to discuss any comments that we have made, please do not hesitate to contact Ralph Odermatt at +41 44 236 8410 or John Gallagher +1 203 719 4212.

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Appendix

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

30A(a)(i) - We do not believe that profit or loss based on a fair value measurement for debt instruments otherwise measured at amortized cost provides relevant information. Such instruments are not managed on a fair value basis and we believe that presentation of a hypothetical profit or loss number could be misleading as it would not properly reflect the business strategy and hedging mechanisms. Further, as portfolios are not static, system changes will be needed to ensure that the impact on profit or loss is appropriately tracked and adjusted for instruments sold and acquired during the year. Fair value for all financial instruments is currently required to be disclosed in accordance with paragraph 25 of IFRS 7. We believe this is sufficient information for users of financial statements.

30A(a)(ii) – We do not support the proposals. This information is not readily available and we do not believe that profit or loss disclosed under this basis provides useful information. Such information is inconsistent with the notion that fair value is the most relevant measure for financial instruments. The idea of maintaining and reporting the amortized cost value of financial instruments currently accounted for and reported at fair value lacks conceptual merit.

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 reconciliations?

No, we do not believe that reconciliations between reported profit or loss and the profit or loss that would have resulted under the two scenarios in paragraph 30A should be required. We do not believe that this additional information will provide enhanced benefit to justify the costs.

Question 3
The exposure draft proposed 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 that proposal? If not, why? What would you propose instead, and why?

We do not support the proposed disclosure requirements. Carrying value and fair value for all financial instruments is already required to be disclosed. Requiring the disclosure of amortized cost basis of an instrument that is otherwise measured at fair value is inconsistent with the notion that fair value is the most relevant measure for financial instruments. Such information is not readily available and will require entities to maintain of two sets of accounting books. Further, due to aggregation of the disclosures by category of financial instrument, users will not have the necessary details to identify impaired AFS instruments. If the objective is to address impairment concerns this should be the clear focus of the disclosures.

We suggest that the Board clarify whether it anticipates any differences between carry amount and fair value for AFS instruments, and carrying amount and amortized cost for loans and receivables. We do not foresee any such differences.

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 loss or those classified as held for trading or both, and if so, why?

We agree that all debt instruments measured at fair value through profit or loss should be excluded from the scope of the proposed disclosures. Such instruments are managed on a fair value basis and measurement at fair value provides the most appropriate profit or loss figures. Information necessary to develop amortized cost measurements is not readily available and would require significant effort to generate.

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

We do not believe that the proposals are exceptionally urgent to warrant the shortened comment timeline and back-dated effective date. We are concerned that the proposed effective date will not permit appropriate review and re-deliberation based on comments received. Further, the information requested is not readily available and will require significant system modifications. A one year delay is necessary to ensure appropriate due process and preparer application.

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

Yes, the transition requirements are appropriate. Comparative information would not be practical in the year of adoption.