**Australian Report for Roundtable on Global Financial Crisis**

**Questionnaire for Australian ADIs**

The Financial Reporting Council of Australia will be participating in the joint IASB/FASB Roundtable on the Global Financial Crisis, to be held in Japan on 3 December 2008. The Roundtable seeks to identify accounting issues emerging from the global crisis, potential solutions to the issue, and whether the issue requires urgent action or can be considered over a more normal time frame.

The Financial Reporting Council (FRC) seeks input from APRA regulated ADIs to its submission to the Roundtable. Specifically, the FRC would like comment on the issues that have been raised in earlier Roundtables, and identification of any additional issues.

To assist your response, this survey gives a brief outline of several of the issues raised by the global financial crisis that have been identified either in the earlier Roundtables, in responses to the discussion paper “Reducing complexity in reporting financial instruments”, or in annual reports of Australian financial institutions. We would like you to comment on:

- The relative importance of the issue to your entity;
- The urgency of change;
- Whether the solution that was mentioned by participants at the Roundtable might be appropriate; and
- An estimate of the impact of the proposed solution.

The second part of the survey seeks your comment on where the crisis has had a significant impact on your reported financial results or dislcosures. Potential areas of impact have been listed, and where possible we would like you to quantify the impact on your financial results.

The final part of the survey requests brief information on how you have responded to the recent amendment to IAS 39, that allow reclassification of certain financial assets, and the recommendations of the Financial Stability Forum in relation to financial reporting.

Individual responses to the survey will be confidential to the FRC and Treasury officers. No entities will be identified in the final report, and a draft of the report will be provided to respondents prior to its submission to the Roundtable.

If you have any questions on the survey, or would like to complete the survey via an interview, please contact:

Judith Downes: (w) 03 9497 1220 (m) 0418 504 905 (e-mail) Judith.s.downes@gmail.com

Thank you for your assistance. We require your response by Friday 28th November 2008, and hope that you will be able to meet this timeline.

**Section 1 Issues raised at Roundtable**

**Please choose response by circling preferred option.**

| **Issue 1 Impairment of available for sale debt securities** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| | | | |
| If AFS debt securities are impaired, the impairment recognised in profit and loss is the difference between carrying value and fair value. If the same security were measured at amortised cost (classified as loans and advances or held to maturity) the amount recognised in profit and loss is the difference between carrying value and present value of expected future cash flows. | Determine the impairment loss for available for sale debt securities based on present value of expected cash flows, with any difference between fair value changes and incurred credit losses recognised in equity. Such differences may arise from liquidity risk or credit risk greater than the estimated incurred credit losses. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

| **Issue 2 Further impairment of AFS debt securities** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| When further reduction in fair value occurs in an AFS debt security as a result of movements in the risk free rate, it is not clear whether this is impairment or whether further impairment only incurs if there are further impairment triggers. | Fair value movements in impaired AFS debt securities arising from changes in the risk free rate should be recognised in equity. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

**Section 1 Issues raised at Roundtable continued....**

| **Issue 3 Impairment of AFS equity securities** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| Reversals of impairment of AFS equity securities are not allowed to be reversed through profit and loss. | Align the treatment of reversals of impairment of ASF equity securities with that of debt securities. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

| **Issue 4 Provisioning for loans held at amortised cost** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| The incurred loss model for provisioning does not reflect management decision making or performance of the assets. An alternative model is one that is based on expected loss, using internal ratings and methodologies – such a model would include incurred losses in the provision amount. | Amend the incurred loss model and align it more closely with the prudential expected loss model. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

**Section 1 Issues raised at Roundtable continued....**

| **Issue 5 Fair value option** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| Use of the fair value option for certain loans, to overcome an accounting mismatch arising from the use of interest rate hedges for balance sheet management, has resulted in booking significant losses from the widening of credit spreads. The fair value option has been used when the entity has been unable to show hedge effectiveness for its economic hedges. | Review restrictions on changing out of the fair value option once adopted, particularly when the conditions that permitted entry to the fair value option have changed.<br>Alternatively, review the requirements for hedge effectiveness. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Allow reclassification out of FVO<br>2 Review requirements for hedge effectiveness<br>3 Both of above<br>4 No change required<br>5..Alternative change preferred (specify) |

**Section 1 Issues raised at Roundtable continued....**

| **Issue 6 Categories of financial instruments** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| There are too many categories of financial instruments – loans held at amortised cost, trading instruments, available for sale instruments, and held to maturity instruments. | Reduce the number of categories, by removing either available for sale, or held to maturity categories. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Remove AFS category<br>2 Remove HTM category<br>3 Remove both AFS and HTM<br>4 Retain all categories<br>5..Alternative change preferred (specify) |
| | | | |

| **Issue 7 Fair value of own debt** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| The recognition of changes in the fair value of an entity's own debt results in a profit and loss that is confusing for investors, and in many instances this component of the profit and loss is backed out in management presentations that show underlying profit. | Take the credit spread component of the fair value movement to equity rather than profit and loss | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

**Section 1 Issues raised at Roundtable continued....**

| **Issue 8 Disclosure requirements** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| Disclosure requirements on reclassification of financial instruments only apply at year end, thus some analysts found it difficult to analyse Q3 results of entities that had made use of the reclassification change | Any interim changes to standards should be accompanied by a requirement to make interim disclosures, in addition to year end disclosures | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

| **Issue 9 Embedded derivatives in CDO** | **Solution mentioned at Roundtable** | | |
|---|---|---|---|
| When a CDO is reclassified based on the recent amendment to IAS 39 and hence is no longer fair valued through profit and loss, should the entity reassess whether any credit related embedded derivative requires reassessment? | Clarification from the IASB is expected to confirm that reassessment of the requirement to separate an embedded derivative should occur at the date of reclassification. | | |
| **Comment on impact of proposed solution (estimate impact if possible)** | Importance | Urgency | Solution? |
| | 1 High<br>2 Moderate<br>3 Somewhat<br>4 Not very | 1 By 31 December 2008<br>2 Within a year<br>3 Normal due process | 1 Agree with solution<br>2 No change required<br>3 Alternative change preferred (specify) |

**Section 1 Issues raised at Roundtable continued....**

| **Issue 10 Other issues** | **Possible Solution** |
|---|---|
| Please include here any other issues that you believe have arisen because of the credit crisis, and which should be addressed by the IASB. | . |
| **Comment on impact of proposed solution (estimate impact if possible)** | |

**Section 2 Impacts of credit crisis on reported results and disclosures**

Listed below are potential impacts on reported results from the credit crisis, and in particular from widening of credit spreads. Please indicate whether the item listed has impacted your results or annual report disclosures, and if so, a measure of the impact. The quantification may be numerical, or an approximate percent of a relevant measure (eg, value of assets measured under fair value option reduced by approximately 15% over previous carrying value).

| **Potential area of impact** | **Confirmation of impact** | **Quantification (where possible)** |
|---|---|---|
| Credit valuation adjustment | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Bid/offer spread | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Re-measurement of assets designated as at fair value through profit and loss | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Re-measurement of own debt where designated at fair value | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |

**Section 2 Impacts of credit crisis on reported results and disclosures continued**

| | | |
|---|---|---|
| Available for sale reserve | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Impairment of available for sale assets | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Fair value disclosures | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Losses on CDOs held in trading book | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| SPVs consolidated for the first time | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| On balance sheet recognition of previously de-recognised assets as a result of change in circumstance | 1..No impact<br>2..Impact similar to prior year<br>3..Impact moderately increased over prior year<br>4 Impact significantly increased over prior year | |
| Other impact (please describe) | | |

**Section 3 Recent changes**

3a) Reclassification of certain financial assets

| **Issue Convergence of IFRS and US GAAP** | **Application of amendment** | | |
|---|---|---|---|
| Reclassifications of certain non-derivative financial assets were permitted by the AASB from 22 October, subject to certain conditions and disclosures. | In your most recent published financial statements, ......... | | Quantum of reclassification |
| | ...did you reclassify trading securities? | Yes<br>No | |
| | ...did you reclassify AFS debt securities? | Yes<br>No | |
| | Do you think this amendment to IAS 39 has improved financial reporting? | Yes<br>No | Comment: |
| | Do you plan to reclassify trading securities or AFS debt securities prior to your next reported results? | Yes<br>No | Comment |
| | | | |

3b) Additional Disclosures recommended by Financial Stability Forum (April 2008)

<table>
<tr><th>Issue Financial Stability Forum Disclosures</th><th colspan="2">Application of recommendations</th></tr>
<tr><td rowspan="5">In April 2008, the FSF recommended that additional disclosures should be made in relation to special purpose entities, sub-prime and Alt A exposures, collateralised debt obligations, commercial mortgage backed securities and leveraged finance. There was encouragement from prudential regulators to provide the additional disclosures.</td><td>Did the FSF recommendations result in additional disclosures?</td><td>Yes<br>No</td></tr>
<tr><td>Where were the disclosures located?</td><td>1..Audited financial statements<br>2..Unaudited management information<br>3 Pillar 3 disclosures<br>4 Other (specify)</td></tr>
<tr><td>Have you received analyst comment in relation to the additional disclosures?</td><td>1..Yes, significant additional comment<br>2..Yes, some additional comment<br>3..No additional comment</td></tr>
<tr><td>Should such disclosures be incorporated in accounting standards or prudential requirements such as Pillar 3?</td><td>1..Accounting standards<br>2..Prudential standards<br>3..No permanent inclusion of additional requirements in regulatory standards</td></tr>
</table>

3c) Additional changes to disclosures as a result of the credit crisis

Please outline below any additional disclosures you have made in your most recent published financial statements as a result of the global credit crisis. Examples might include:

- Reporting extent of use of level 1, 2 and 3 measurement of financial instruments (based on US GAAP)
- Disclosures on methodologies used for measurement of financial instruments in illiquid markets
- Details of specific portfolios or transactions
- Guidance on assessment of control of special purpose vehicles
- Information on collateral held

| **Nature of disclosure** | **Brief Description** | **Reason for enhanced disclosure** |
|---|---|---|
| | | |
| | | |

Thank you for your assistance

Please return completed survey to Judith.s.downes@gmail.com