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International Accounting Standards Board
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16 June 2009

Dear IFRIC members

Tentative Agenda Decision – Meaning of 'significant or prolonged'

The global organisation of Ernst & Young is pleased to respond to the above Tentative Agenda Decision as published in the IFRIC Update of May 2009, including the recommended reasons for not adding the item to its agenda (together the Tentative Decision).

The IFRIC was asked: "to provide guidance on the meaning of 'significant or prolonged' (as described in paragraph 61) in recognising impairment on available-for sale equity instruments in accordance with IAS 39 [Financial Instruments: Recognition and Measurement]."

We agree with all the points raised and are pleased that the IFRIC provided guidance in its Tentative Decision clarifying which interpretations of 'significant' and 'prolonged' are inconsistent with IAS 39; we believe that financial reporting will, as a result, be improved. Even though the IASB plans to replace IAS 39 in the short-term, we believe that the Tentative Decision should be finalised and issued. We also note some clarifications that would be helpful.

Without detracting from our overall agreement, while the Tentative Decision emphasises that judgement is critical to the assessment of what is considered a significant or prolonged decline, no principles or definitions have been established for what is meant by these terms. Consequently, it is not clear how judgment is to be exercised and we believe the terms will continue to be interpreted in a diverse manner. In the absence of such definitions or principles, guidance on what thresholds or other factors are to be considered when making the assessment of what is significant or prolonged would be helpful, for example, guidance clarifying that the instrument's historical price volatility can be considered when assessing what is 'significant' (on the basis that a decline in market price is less significant if such a decline is relatively 'normal' for that instrument).

The Tentative Decision reiterates IAS 39's principle that a significant or prolonged decline is objective evidence of impairment. Many entities have asserted that available-for-sale equity instruments held for 'strategic' reasons (e.g., to develop a business relationship) are not impaired as the traded price does not reflect the value to that specific investor. It would be helpful if the IFRIC specified that these investments are subject to the same impairment assessment as other investments.

The Tentative Decision states:

> "The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an entity can conclude the investment is not impaired. Because each equity investment is unique, each must be considered separately for impairment. The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing. Consequently, the IFRIC concluded that an anticipated market recovery is not relevant to the assessment of 'prolonged'."

The last two sentences refer to forecasts. We believe that a distinction should be made between a recovery that has actually happened since the balance sheet date before the financial statements are issued, and an 'expected' or 'anticipated' recovery. We believe that recoveries after the balance sheet date but before the financial statements are issued can be considered in the assessment of what is significant or prolonged.

Additionally, there are two separate points in the paragraph above, a decline in relation to the overall market and forecasts of expected recovery, which would be more clearly stated in separate sub-paragraphs as they address different issues.

Please contact Tony Clifford at 020 7951 2250 should you have any questions regarding the above.

Yours faithfully

Ernst & Young