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Mr Robert Garnett
Chairman
The International Financial Reporting
Interpretations Committee of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Our ref **MT/288**
Contact **Mary Tokar**

19 June 2009

Dear Bob

IAS 39 *Financial Instruments: Recognition and Measurement* – Meaning of ‘significant or prolonged’

We are writing regarding one of the tentative IFRIC agenda decisions reported in the May 2009 *IFRIC Update*. This letter expresses the views of the international network of KPMG member firms.

The IFRIC tentatively decided not to add to its agenda the issue of interpreting paragraph 61 of IAS 39 *Financial Instruments: Recognition and Measurement* on the meaning of ‘significant or prolonged’ in recognising impairment of available-for-sale equity investments. Although the IFRIC noted that significant diversity exists in practice in the application of the meaning of ‘significant or prolonged’, it decided that, in light of the IASB’s accelerated project to issue a replacement for IAS 39, IFRIC would not add this issue to its agenda. We also note that the IFRIC’s tentative agenda decision includes examples and commentary on some of the differing ways in which the requirements of IAS 39 are being applied in practice and that the IFRIC identifies some as being inconsistent with the standard.

We support the IFRIC’s decision not to add this issue to the agenda. Although we agree with the IFRIC that significant diversity exists in practice and also believe that this is a significant practice issue in the current economic environment, we do not see the merits of IFRIC developing interpretative guidance on this issue given the IASB’s current project on IAS 39.

In order to avoid creating multiple streams of authoritative and non-authoritative guidance on the application of IFRSs, generally we have not supported extensive commentary in IFRIC agenda decisions regarding the application of the standards. However, we believe that the importance of this issue for financial reporting in the current economic environment and the potential significance of the observed diversity in practice warrants the more expansive commentary from the IFRIC proposed in this instance. We strongly support the effort made by the IFRIC to identify examples of application that are inconsistent with the requirements of IAS 39. We believe that the tentative agenda decision confirms the appropriate application of the



requirements of IAS 39 for the examples noted. We agree with the IFRIC that determination of what constitutes a ‘significant or prolonged’ decline requires the application of judgement. We also believe that the examples of significant diversity in practice noted by the IFRIC do not arise from the application of judgement regarding the magnitude or duration of declines in value that are considered to be ‘significant or prolonged’, but rather from applications of IAS 39 that are inconsistent with its requirements. As such the additional commentary in this agenda decision should help reduce that element of the diversity in practice.

Please contact Mary Tokar or Chris Spall at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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cc Andrew Vials