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RE: CESR's comments regarding IFRIC tentative agenda decision on IAS 39 "significant or prolonged"

The Committee of European Securities Regulators (CESR) has, through its standing committee on financial reporting (CESR-Fin), considered the outcome of IFRICs tentative agenda decision regarding IAS 39 Financial Instruments: Recognition and Measurement – Meaning of "significant or prolonged".

IFRIC has invited its constituents to comment on the tentative agenda decision. We thank you for this opportunity and are pleased to provide you with the following comments:

- In general, CESR is supportive of the conclusions reached by IFRIC on this issue. CESR understands why the issue has been rejected, in particular, given the existence of a short-term project which will result in a full revision of the standard.

- In particular, CESR supports IFRIC's conclusions stating that the standard requires the identification of objective evidence of impairment based on a "significant *or* prolonged decline" and not on a "significant *and* prolonged decline". CESR agrees that the standard is clear on this point as it clearly states "significant *or* prolonged". As noted in the document by Ernst & Young submitting the issue to IFRIC, CESR is aware that some preparers have understood the standard to require 'significant *and* prolonged" and CESR therefore welcomes IFRIC's clarification on this issue.

- CESR agrees with IFRIC that setting objective evidence of impairment criteria (for example duration of decline and percentage of decline) requires judgement. However, it should also be made very clear to preparers that once these criteria are met, they should be applied consistently.

- CESR has concerns with the potential consequences of the fact that wording used in the rejection refers both to the need to use judgement and to the uniqueness of each equity investment. The combination of these two concepts might be understood to allow preparers to set different criteria for each and every equity investment item. The consequences of such a practice both on the quality of the financial statements, and on the transparency of disclosures provided to users, is of great concern to CESR.

- CESR's understanding is that judgement is also required in the application of other IFRSs. For instance, a preparer will use judgement in setting depreciation periods for the various categories of property, plant and equipment it owns. CESR understands that, in the case of equity investments, the use of judgement might result in setting different criteria for different kinds of investments (for example investments from different geographical areas or investments with similar historical volatilities). Establishing the various categories of investments and setting objective evidence of impairment criteria for these categories requires judgement.

- CESR would like to know whether the approach described above is in line with the message IFRIC intended to convey by the rejection wording or if in fact IFRIC deliberately intended to allow preparers to set different objective evidence of impairment criteria for each and every equity investment item?

- Lastly, the IFRIC notes that "*an entity would provide disclosure about the judgements it made in determining the existence of objective evidence of impairment in accordance with paragraph 122 of IAS 1 Presentation of Financial Statements*." In CESR's view, it is important that preparers disclose information on how they have used judgement in applying the significant or prolonged criteria. Based on wording contained in the draft IFRIC rejection decision, CESR believes good disclosures would include a description of the policy and rationale behind the judgement, including underlying assumptions, used by the company to define whether an impairment situation exists or not. In addition, CESR is of the view that additional disclosures should be provided on the criteria used at the end of the process in order to make sure that no impairment situation (corresponding to a significant or prolonged decline in value) has been missed.

I should be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy

Chairman of CESR-Fin