

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

14 January 2009

Dear Sir David,

## **Investments in Debt Instruments: Proposed amendments to IFRS 7**

### **SUMMARY**

- The proposals in the Exposure Draft (ED) do not address the issue raised at the round-table events held in response to the financial turmoil
- Increased disclosure cannot remedy flaws in the measurement rules for available-for-sale (AFS) financial assets
- We urge the IASB to implement the disaggregation disclosure proposals suggested at the round tables and then move swiftly to review fundamentally the impairment rules for AFS financial assets
- Significant systems changes would be required to produce the information required by the ED. We do not believe the changes should be applied retrospectively. Rather they should have an effective date that allows a reasonable period for implementation, with an option for early implementation

### **MAIN COMMENTS**

The Board's decision to expeditiously publish an Exposure Draft with a shorter than normal comment period shows, in our view, a welcome willingness to adopt a pragmatic approach to amending IFRS which should be utilised to implement other amendments which become necessary as the regulatory response to the market turmoil intensifies. We believe that the disaggregation of impairment losses as proposed by the round-tables and as summarised by paragraph BC4 would provide decision useful information for users (i.e. the incurred loss portion) and that it could be implemented at minimal cost to preparers.

It is therefore unfortunate that the proposal contained in the exposure draft does not provide the information suggested by the round-table participants. Rather it, unnecessarily in our view, goes further and requires disclosure of the pre-tax profit or loss as if all investments in debt instruments had been classified as financial assets at fair value through profit and loss. There is an existing IFRS 7 requirement to disclose the period end fair values for all financial instruments and it is therefore not clear what useful information would be provided by a requirement to disclose the pre-tax profit or loss on the sub-set of debt instruments. The usefulness and meaningfulness of the information is further undermined by the fact that these instruments are not managed on a fair value basis through profit or loss. We believe that a requirement to disclose debt instruments as if they were classified differently is likely to be misunderstood. These short comings are compounded by the fact that the majority of entities are unlikely to have the required information readily available.

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We are also concerned that the proposal is not clear. For example, it introduces 'debt instrument' as a new term. To our knowledge 'debt instrument' is not defined within the body of IFRS and therefore a definition will be required to clarify the requirements. It is also not clear whether the proposal includes loans and receivables within its scope? Whilst we do not believe it should, we note that the recently published proposed FASB Staff Position FAS 107-a explicitly states that loans are within the scope of that pronouncement. Further, the pre-tax profit or loss being disclosed is not clear. Is it the pre-tax profit or loss for the whole entity adjusted for the different treatment of debt instruments or is it just the pre-tax profit or loss for the debt instrument only? The former of these would be the easier for preparers to implement as the latter would require the identification of all profit and loss movements relating to debt instruments.

Notwithstanding our comments above, we do not believe that in the long term extra disclosure is the right answer to this issue. Rather we believe the impairment rules within the available-for-sale category (for both debt and equity items) are flawed and need to be re-examined as part of a wider project on impairment in the near future.

As a final point, we would like to register our concern about the proposed implementation time frame. Although as we note above we support the Board's desire to respond to constituents' views quickly, the proposals as drafted would require significant changes to be made to systems. We therefore cannot support the proposed effective date or the suggestion that the proposals be implemented retrospectively. We suggest instead that the effective date should allow a reasonable period for implementation, with an option for early implementation

Our detailed comments on the individual questions raised in the discussion paper follow.

### **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?*

We do not agree with the proposed disclosure. As noted above, whilst we could agree to support an amendment to require the disaggregation of impairment losses as set out in paragraph BC4 we believe that the costs and difficulties of obtaining the information necessary to disclose the information as if debt instruments had been classified as at fair value through profit or loss outweighs any potential benefit. This is especially true given that IFRS 7 already requires the disclosure of the fair value of debt instruments and the fact that there is already plenty of information available to users to compare entities who classify their debt investments differently.

We note that the exposure draft does not address the significant issues which arise when the debt instruments are hedged. For example, it is not clear whether it would be necessary to reverse any hedge accounting to try to reflect what the results would have been if the instruments had been held at fair value or amortised cost.

As noted above, we believe that the long term solution to this issue must be a fundamental review of the impairment rules for AFS financial assets and the enhancement of existing disclosures about AFS financial assets.

### **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?*

We do not agree with this proposal. Not only do we question the meaningfulness of this information we also have considerable concerns about the practicalities of calculating what the different pre-tax profit or loss would have been under the different classification assumptions.

### **Question 3**

*The exposure draft proposes 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 disagree with the proposed disclosure and do not believe it meets the information need identified at the round-tables because it is not sufficiently granular to identify impaired AFS financial assets. The proposed disclosure also duplicates an existing IFRS 7 disclosure so it is not clear what extra information will be disclosed. Furthermore we do not believe the requirements, as drafted, are clear. For instance, is it envisaged that the carrying amount of amortised cost loans and receivables is the same as the amortised cost amount or is it foreseen that any fair value hedging effects are not included in the amortised cost column?

Again, we believe that the long-term solution must be a revision of the impairment rules for AFS financial assets.

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

Although we have reservations about the value of the disclosure discussed above, we agree that the scope should exclude debt instruments classified as fair value through profit or loss.

### **Question 5**

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

We do not agree with the proposed effective date. Significant information will need to be collected to meet the disclosure proposals which will require considerable changes to be made to systems. If a proposal can be developed which meets the information needs identified at the round-tables, the effective date should not apply on a retrospective basis but allow a reasonable period for implementation, with an option for early implementation.

### **Question 6**

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

We agree that it would be inappropriate to require comparators in the first year of implementation.

Yours Sincerely,

**Paul Chisnall**  
*Executive Director*

A handwritten signature in black ink that reads "Paul Chisnall". The signature is written in a cursive, flowing style with a large initial 'P' and 'C'.

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