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Investments in Debt Instruments

A response by

CFA Society of the UK

About CFA Society of the UK

The CFA Society of the UK (CFA UK) represents the interests of 7,500 leading members of the investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members.

CFA UK supports the CFA, ASIP and IMC designations. Most members hold either the Chartered Financial Analyst (CFA), or Associate designation. CFA Institute is best known for developing and administering the CFA curriculum and examinations and issuing the CFA Charter. CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence.

Most CFA UK members also belong to the CFA Institute and reaffirm annually their adherence to its Code of Ethics and Standards of Professional Conduct. Both CFA UK and CFA Institute are committed to providing members with a wide range of continuing education opportunities. All members are encouraged to undertake ongoing post-qualification continuing education.

CFA UK is the awarding body for the IMC, the benchmark entry-level qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated a recommended examination by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by over 15,000 investment professionals.

About this response

While appreciating that the IASB is under pressure to show that it is responding to comments made during consultation exercises, the committee is concerned about some of the resulting output. The reasons are:

1. The ever-growing volume of disclosure requirements. We have recently noted that the fait accompli measures (amendments to IAS 39 and IFRS 7) allowing financial instruments to be reclassified included welcome disclosure requirements. We then responded to the ED "Improving Disclosures about Financial Instruments", which included further helpful amendments to IFRS 7. This is what preparers should be concentrating on – perhaps reporting early, if possible, since the effective date is not until July 2009. So we sympathise with the view that preparers already have enough to do. While the tables look attractive, the incremental benefits of the detailed proposals are questionable.
2. As we said in our response to the ED on Reducing Complexity in Financial Instruments, we are not hung up on the notion that all gains and losses must go through the P&L: "We like to see unrealised changes in value reported separately from realised gains and losses. This is not because we are worried about earnings volatility, which we are not. It is because we think paper gains and losses are different from actual transactions; and that there should be a clear distinction between operating performance and revaluation of the portfolio of assets and liabilities at the end of each reporting period."
3. Comments at the IASB round-table held in London (14.11.09) and our subsequent discussions suggest that there are issues surrounding methods used for the amortisation and impairment of financial instruments. It would also be interesting to consider the differences between methods used in impairment tests and in fair value measurements in Level 3. Are there ways to remove inconsistencies, or otherwise to simplify measurements that are all attempting to update the value of these instruments on the balance sheet date? Such questions should be looked at in the round, not tackled piecemeal.
4. Little more than three weeks was allowed to consider this ED, with Christmas and the New Year intervening. This is too short, especially as the measure is not urgent.

Response to questions

Question 1
<i>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.</i>
<i>Do you agree with that proposal? If not, why? What would you propose instead, and why?</i>
Answer 1
We understand that the majority of the disclosures required by the ED contain information that is already available in financial statements. If it is easy for the preparer to do a few sums to create the tables suggested in the ED, that cannot do any harm and may please some users. We assume these table would be added to the notes to the accounts along with the tables that already exist showing financial instrument valuations using different methods.
Question 2
<i>The exposure draft proposes to require disclosing the pre-tax profit or loss amount that</i>

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?

Answer 2

We are not very interested in P&L reconciliations for unrealised gains and losses and changes in balance sheet numbers. The main thing is that the changes in values between the period ends is clear, that we understand the methods used for the valuations and that similar methods are used for similar instruments.

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?

Answer 3

If there is a significant difference in answer between these three valuation measures, that is useful information. If the carrying cost is out of line with either FV or amortised/impaired cost, then the reason should be disclosed. But it might be better to tackle this by streamlining the rules on carrying cost/amortised cost/impairment. Perhaps the expert advisory panel should do this as a follow-up to their extremely helpful work on FV measurement.

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?

Answer 4

In an ideal world, we would see the two different valuation methodologies applied across all debt instruments. This would give a range of estimates and allow users to decide what weight to attach to different measurement assumptions for different types of instrument.

Question 5

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

Answer 5

Where it is easy for preparers to do a few simple calculations to provide a couple of easy-to-read tables, the timescale is acceptable. But this cannot be looked at in isolation. There are much higher priorities than this in the already heavy workload facing preparers of the 2008 accounts. So we do not feel strongly that anything should be rushed into force.

Question 6

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

Answer 6

No comment.

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