

September 14, 2009

Technical Director
International Accounting Standards Board
30 Cannon Street
London, UK EC4M 6XH

Dear Sir or Madam:

Re: Exposure Draft – Financial Instruments: Classification and Measurement

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is pleased to submit its comments in response to the Exposure Draft on Financial Instruments: Classification and Measurement as issued by the International Accounting Standards Board (IASB).

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross-section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

The CCR is supportive of the direction the board has taken in terms of simplifying the standards for financial instruments. Specifically, the reduction in the number of categories for classification helps to simplify the application of the standards for those companies that do not hold complex financial instruments. CCR respectfully provides the following comments to the questions raised in the Exposure Draft:

Classification Approach

Question 1

Does amortized cost provide decision-useful information for a financial asset or financial liability that has basic loan features and is managed on a contractual yield basis? If not, why?

We do believe that the amortized cost approach provides decision-useful information in most instances where it would be applicable under the proposed standard and will simplify the application of the financial instruments standards.

Question 2

Do you believe that the exposure draft proposes sufficient, operational guidance on the application of whether an instrument has ‘basic loan features’ and ‘is managed on a contractual yield basis’? If not, why? What additional guidance would you propose and why?

We propose that further guidance be provided on the identification of groups of instruments managed on a contractual yield basis. We believe the vagueness in this area will result in defining classification on an instrument-by-instrument basis. We also believe that this may lead to inconsistent application by similar businesses.

Additional guidance should also be provided on whether managing for cash flow should be considered managing on contractual yield basis. There is potential that the wording of the standard could lead to interpretations that any cash flow variability (plus or minus) would be an indication that the criteria for the amortized cost approach has not been met and effectively force instruments into the fair value category.

Question 3

Do you believe that other conditions would be more appropriate to identify which financial assets or financial liabilities should be measured at amortized cost? If so,

(a) what alternative conditions would you propose? Why are those conditions more appropriate?

(b) if additional financial assets or financial liabilities would be measured at amortized cost using those conditions, what are those additional financial assets or financial liabilities? Why does measurement at amortized cost result in information that is more decision-useful than measurement at fair value?

(c) if financial assets or financial liabilities that the exposure draft would measure at amortized cost do not meet your proposed conditions, do you think that those financial assets or financial liabilities should be measured at fair value? If not, what measurement attribute is appropriate and why?

We believe that with the additional clarifications as described in our response to question 2, the proposed conditions for identifying which financial assets and liabilities are measured at amortized cost are appropriate.

Embedded Derivatives

Question 4

(a) Do you agree that the embedded derivative requirements for a hybrid contract with a financial host should be eliminated? If not, please describe any alternative proposal and explain how it simplifies the accounting requirements and how it would improve the decision-usefulness of information about hybrid contracts.

(b) Do you agree with the proposed application of the proposed classification approach to contractually subordinated interests (ie tranches)? If not, what approach would you propose for such contractually subordinated interests? How is that approach consistent with the proposed classification approach? How would that approach simplify the accounting requirements and improve the decision usefulness of information about contractually subordinated interests?

We agree with the proposal in point (a) and we believe this will reduce the complexity of accounting for these types of contracts. However we do not agree with the proposal in point (b). We believe this proposal would give rise to a divergence in accounting for similar instruments because the underlying assets and the senior most contractually subordinated interest will be accounted for by the amortized cost method while the remaining contractually subordinated interests will be accounted by the fair value method.

Fair Value Option

Question 5

Do you agree that entities should continue to be permitted to designate any financial asset or financial liability at fair value through profit or loss if such designation eliminates or significantly reduces an accounting mismatch? If not, why?

We agree with this proposal.

Question 6

Should the fair value option be allowed under any other circumstances? If so, under what other circumstances should it be allowed and why?

We do not see other circumstances where the fair value option would be beneficial.

Reclassification

Question 7

Do you agree that reclassification should be prohibited? If not, in what circumstances do you believe reclassification is appropriate and why do such reclassifications provide understandable and useful information to users of financial statements? How would you account for such reclassifications, and why?

We agree with this proposal.

Investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured

Question 8

Do you believe that more decision-useful information about investments in equity instruments (and derivatives on those equity instruments) results if all such investments are measured at fair value? If not, why?

We believe that requiring fair value measurement of privately held equity instruments adds a level of complexity and cost which exceeds the benefit of doing so.

Question 9

Are there circumstances in which the benefits of improved decision-usefulness do not outweigh the costs of providing this information? What are those circumstances and why? In such circumstances, what impairment test would you require and why?

In the case of equity instruments in privately held entities, the cost of preparing or obtaining auditable fair value measurements of those instruments would outweigh any benefits obtained from that information. In these circumstances, an impairment test could be a comparison of the recorded cost of the investment to the underlying equity book value. The equity of the investee would reflect appropriate impaired values of assets and liabilities if impairments exist.

Investments in equity instruments that are measured at fair value through other comprehensive income

Question 10

Do you believe that presenting fair value changes (and dividends) for particular investments in equity instruments in other comprehensive income would improve financial reporting? If not, why?

We have a concern with recording the earnings and subsequent settlement of an instrument in other comprehensive income. Investments can be held for capital appreciation and/or dividend income to generate return. If the realized gains/losses are not recorded in earnings, the result will not reflect underlying economics and purpose for holding the instruments. This proposal may result in the use of non-GAAP measures to adjust net income to reflect the realized gains/losses from these investments to better reflect the underlying performance and the economics of the entities results for the period. Users of financial statements attribute Other Comprehensive Income to gains and losses yet to be realized from a variety of sources including unrealized pension costs, gains and losses on securities and derivatives, hedges and net foreign investments. The amounts accumulated in OCI are recycled to net income upon realization or impairment. Prohibiting certain realized items such as dividends received and transactions costs paid, counteract the original intent and understanding of OCI. Accordingly, regardless of the

intent on the equity investment, realized gains/losses on equity investments should be recycled to the P&L when disposed of. Allowing two different classification methods for the same instrument will create inconsistency and comparability among many entities. We urge the IASB to allow explicit recycling of equity gains/losses in OCI into net income as they are realized.

Question 11

Do you agree that an entity should be permitted to present in other comprehensive income changes in the fair value (and dividends) of any investment in equity instruments (other than those that are held for trading), only if it elects to do so at initial recognition? If not,

(a) how do you propose to identify those investments for which presentation in other comprehensive income is appropriate? Why?

(b) should entities present changes in fair value in other comprehensive income only in the periods in which the investments in equity instruments meet the proposed identification principle in (a)? Why?

We believe the ability to elect this optional treatment would result in reduced comparability of similar transactions and would add unnecessary complexity to the standard. As stated in our response to Question 10, we do not favour the recording of realized earnings in other comprehensive income.

Effective date and transition

Question 12

Do you agree with the additional disclosure requirements proposed for entities that apply the proposed IFRS before its mandated effective date? If not, what would you propose instead and why?

For countries such as Canada that are in the process of initially adopting IFRS standards in 2011 with comparatives for 2010, the mandatory adoption date of the final standard in 2012 would result in 3 years of changing financial instruments standards – 2010 under Canadian GAAP, 2011 under current IFRS rules and 2012 under new IFRS rules, with the related comparative restatements. This may lead to significant confusion and distrust of financial information by users. To reduce the confusion around the continuous change in standards many Canadian companies may consider early adoption of the standard in 2011. These additional disclosure requirements would increase complexity to transitional financial statements that will already be significantly complex. We would propose reduced disclosure for early adoption and/or prospective adoption of the standard.

Question 13

Do you agree with applying the proposals retrospectively and the related proposed transition guidance? If not, why? What transition guidance would you propose instead and why?

We would encourage the IASB to permit prospective application of the revised standard without restatement of comparatives particularly for countries that are currently going through initial adoption prior to the adoption date of this standard. This would allow companies that are well progressed in their conversion efforts for the first time adoption of IFRS in 2011 to comply with IFRS without multiple years of retrospective restatement of results and thereby providing some stability and comfort for the Canadian markets in the financial standards being applied.

An alternative approach

Question 14

Do you believe that this alternative approach provides more decision-useful information than measuring those financial assets at amortized cost, specifically:

(a) in the statement of financial position?

(b) in the statement of comprehensive income?

If so, why?

We believe the alternative approach adds a level of complexity that does not lead to more decision-useful information.

Question 15

Do you believe that either of the possible variants of the alternative approach provides more decision-useful information than the alternative approach and the approach proposed in the exposure draft? If so, which variant and why?

We do not believe the alternative approach variants would lead to more decision-useful information.

Additional Comments

We are concerned about the staggered manner in which IAS 39 is proposed to be revised and implemented. Changes to other aspects of this standard including Impairment and Hedge Accounting may result in subsequent revisions to this standard. This approach may lead to consecutive years of financial instrument accounting changes with related restatement of comparative figures. We would encourage the Board to accumulate the proposed changes to IAS 39 and determine a coordinated implementation date for all.

We are also concerned about the inconsistencies this exposure draft has with the initial deliberations of FASB. Particularly, we are concerned with the tentative decision of FASB to define the criteria for FVTOCI classification and to require recycling of accumulated OCI to net income.



We hope that our comments will be useful to the IASB in its deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Yours very truly,

A handwritten signature in black ink, appearing to read "Victor Wells".

Victor Wells
Chair
Committee on Corporate Reporting
FEI Canada

Copy: Mr. Peter Martin, Accounting Standards Board (Canada)