March 28, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via “Open to Comment” page, www.iasb.org

RE: Exposure Draft ED/2012/34 – Classification and Measurement: Limited Amendments to IFRS 9

Dear Sir or Madam:

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Accounting Standards Board’s Exposure Draft on the proposed amendment to IFRS 9. We appreciate the opportunity to provide comments.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,800 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 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.

In general, we are supportive of the IASB’s effort to clarify the existing classification and measurement requirements and to reintroduce a fair value through other comprehensive income (FV-OCI) measurement category for particular financial assets that contain contractual cash flows that are solely payments of principal and interest. However, we recommend that the FV-OCI be an optional category to maintain simplicity if that better reflects the business model of a preparer. Responses to the specific Exposure Draft questions are included in the appendix.

We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to the Exposure Draft.

Thank you for allowing us the opportunity to respond to this proposal.

Yours very truly,

Gordon Heard
Chair
Committee on Corporate Reporting
FEI Canada

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Appendix – Response to Exposure Draft Specific Questions

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

We agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest (SPPI). We also believe that the SPPI test should be met regardless of whether or not the contractual cash flows are more than insignificantly different from the benchmark cash flows provided that the special feature in question would not (i) otherwise cause a gain or loss at maturity of the financial asset that would be avoided by accounting for the feature, or the whole instrument, at fair value during the life of a financial asset or (ii) cause the interest to not be determined in direct reference to the amount of funds borrowed in an unlevered manner.

We believe that special features that should cause an instrument to not meet the criteria for SPPIare usually obvious such as equity or commodity linked features, including equity conversion features. As a result, we believe that the retention of the existing "clearly and closely related embedded derivative" rules in IAS 39 to define such "special features" would be superior for identifying instruments that either should be ineligible for Amortized Cost or FV-OCI accounting. We also support retention of the existing bifurcation requirements that permit the embedded derivative portion of a complex instrument to be fair valued, while the remainder of the instrument may qualify for amortized cost or FV-OCI. Retaining the existing bifurcation requirements would create consistency between how embedded derivatives in financial assets and financial liabilities are accounted for.

Consistent with our views above, we believe that such instruments should be accounted for at Amortized Cost if the business intent is to collect contractual cash flows as compensation for the lending of funds. In the absence of the retention of the existing bifurcation accounting model, we also believe that it would be preferable to accommodate this objective via the inclusion of a definitive example that indicates that these particular instruments should indeed be accounted for at Amortized Cost or FV-OCI if that is the IASB's intent, rather than create detailed assessment guidance that contains a number of interpretive and operational issues.

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

We agree that the operational application guidance provides reasonable direction. In conjunction with our recommendation in question 1 regarding embedded derivatives, we recommend the inclusion of a specific example that would help preparers assess the IASB's intent regarding the demarcation when an embedded derivative falls outside the scope of "clearly and closely related". Specifically, we suggest that B4.1.8 (a) include guidance to assist preparers in assessing the significance of contractual cash flows that are unrelated to principal and interest that may default an instrument into fair value through profit and loss accounting (FV-P&L).

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

We believe that the maintenance of a bifurcation accounting model would be preferable to the all-or-nothing model FV-P&L versus Amortized Cost or FV-OCI model set out in IFRS 9. While we believe that the "clearly and closely related" rules in IAS 39 that are already widely understood are the best available to distinguish when a special feature should be bifurcated, the use of an SPPI test to articulate when bifurcation is appropriate would be superior to an all-or nothing approach.

If the SPPI test is to be maintained, we believe that a more comprehensive list of examples of features that would (i) clearly pass the cash flow characteristics test, (ii) clearly not pass the cash flow characteristics test; and (iii) require a more detailed assessment would simplify the application of the standard and increase comparability amongst preparers. In particular, when the category requiring more detailed assessment should be supported by clear guidance and illustrative examples of how the assessment is to be performed.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value though OCI (subject to the contractual cash flow characteristics assessment) such that:

- **(a) interest revenue, credit impairment and any gain or loss on derecognition are recognized in profit or loss in the same manner as for financial assets measured at amortised cost; and**
- **(b) all other gains and losses are recognized in OCI?**

If not, why? What do you propose instead and why?

Those FEI members working in the financial services sector, strongly agree that financial assets held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should not be measured at FV-P&L as many would have been prior to these amendments. The addition of the FV-OCI category will address concerns raised in the insurance industry (identified as one of the project objectives) that the existing categories in IFRS 9 result in an accounting mismatch between the accounting for insurance claim liabilities and the related assets. We agree that the introduction of the FV-OCI category helps to alleviate our concern with unwarranted earnings volatility.

At the same time, members who are not involved in the financial services sector are concerned that these proposals add further complexity to the accounting for financial instruments rather than simplifying. Accordingly, it is our recommendation that the option for FV-OCI be at the discretion of the preparer, for example to reduce accounting mismatches.

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As for the recycling of gains and losses from OCI to P&L on sale or derecognition, we do not supportthe proposed diversity in accounting treatment for equity instruments compared to debt securities classified FV-OCI. We recognize the difference between equities and debt securities described in the Basis for Conclusions, about the, but it remains that they are both financial instruments measured at fair value through OCI and we believe that creating different treatment for realized gains or losses would unduly complex for financial statement users and is inconsistent with the way these assets are managed by many businesses. We recommend that the FV-OCI category (with recycling through P&L) be available for both debt and equity instruments that are not held for trading ((FV-PL). For accounting treatment to best match the business model, it is fundamental for insurance companies, in particular, to extend the FV-OCI category to all financial instruments (except for derivatives).

Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

We agree that the categories should be principle based and not based on strict rules as entities need flexibility to address the many risk management strategies and investment strategies employed across industries and around the world.

We agree that the fundamental concepts and application guidance provides some direction to entities for determining the appropriate classification but with all principle based standards there is the risk that subjectivity and possible inconsistent application will call into question the quality of financial reporting and reduce comparability.

We encourage the Board to clarify as much as possible the basic characteristics and rationale of what falls into each category (in particular though the use of more examples). This includes the clarification of (i) the level of "infrequent" or "insignificant" sales activity that would taint the Amortized Cost category, particularly in periods of changing interest rates, and (ii) the ability to sell assets in response to credit deterioration without tainting the Amortized Cost classification.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

We agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at FV-OCI. We believe this extension would mitigate accounting mismatches that may otherwise cause P&L volatility that are not indicative of the entity's strategies, risk management techniques or the true economics. We believe that the fair value option extension would allow entities to provide more accurate and relevant financial information - by measuring both at FV-P&L - where there is a linkage (e.g. economic, risk management or otherwise) between a financial asset and liability that would otherwise have different measurement bases. This accounting treatment would also preserve the application of fair value option accounting that works well today for many entities.

We also believe that the FV-OCI option should be extended to both debt and equity securities to align accounting presentation when the portfolios are managed consistently and reduce measurement mismatches.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

We do not have an opinion on these proposals.

Question 8

Do you agree that entities should be permitted to choose to early apply only the "own credit" provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

In our opinion, the suggested changes to the "own credit" provision are a correction of an existing issue with the standards rather than a proposed enhancement. We support the option to provide a different transition for these provisions.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

As Canadian preparers have already transitioned to IFRS, we do not have any specific comments regarding first time adopters.