June 30, 2010

The International Accounting Standards Board
30 Cannon Street
London, United Kingdom
EC4M 6XH

Re: Exposure Draft – Financial Instruments: Amortised Cost and Impairment

The Committee on Corporate Reporting of Financial Executives International Canada ("FEI Canada") is writing this letter to provide its response to the International Accounting Standards Board's ("IASB") **Exposure Draft – Financial Instruments: Amortised Cost and Impairment**

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 30 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.

General comments

Overall we agree with moving towards an expected loss model; however we have concerns that the IASB's proposals will not produce transparent financial information for users of financial statements and will generate significant operational challenges for preparers as described throughout this letter.

In principle, we are in agreement that in a portfolio of assets there is some loss inherent at inception. Under the incurred loss model, we believe that the same accounting result would be achieved over the life of the financial instrument, so the move to the expected loss model only alters the timing of loss recognition. Nevertheless, we believe that decision useful information is more likely to be available under the expected loss model than under an incurred loss model.

We highly encourage that the IASB work with the US Financial Accounting Standards Board (FASB) to achieve one converged standard in the area of accounting for financial instruments. We are very concerned that the Boards have taken different approaches with respect to classification and measurement, and impairment requirements. Thereby, there is a risk that IFRS 9, once completed, may be further modified to align with FASB proposals. Although we have not yet had an opportunity to review the recently issued FASB exposure draft in detail or formulate our response, we may have additional comments on the IASB exposure draft when that review is complete.

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The proposals are not consistent with many global regulatory requirements and would require entities to maintain different accounting systems to satisfy multiple reporting requirements. Maintaining multiple methods for reporting the same risks will reduce the usefulness and transparency of the financial information provided and make it more difficult for management to both calculate and effectively explain the financial results in a relevant manner to users of financial statements.

We are fully supportive of the IASB's outreach program with respect to these proposals, in particular the work with the Expert Advisory Panel (EAP) to develop practical expedients to these requirements. However, we recommend that the composition of the Panel be more representative of smaller scale organizations which will ensure discussions are not as heavily weighted towards financial institutions and address implementation considerations for smaller, less sophisticated entities. We encourage the IASB to have the EAP evaluate alternative expected loss models that have been put forward and incorporate the recommendations of the EAP Panel into the final standard after ensuring sufficient due process.

We want to stress that the timing of the effective date of the requirements should provide at least three years transition and be aligned with the effective date of the replacement standard for IFRS 4, to ensure consistent asset and liability measurement for entities that manage their business on this basis such as insurance companies. In the event that the revised insurance standard is not available at the time of the effective date of IFRS 9, insurers should be permitted to re-designate the classification of financial assets accordingly.

Our detailed comments are provided in the Appendix to this letter.

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

Yours very truly,

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Appendix

FINANCIAL INSTRUMENTS: AMORTISED COST AND IMPAIRMENT

Question 1

Is the description of the objective of amortised cost measurement in the exposure draft clear? If not, how would you describe the objective and why?

We agree that the objective of amortised cost measurement as set out in the in the exposure draft is clear.

Nevertheless, we would like to note that the measurement proposals in the exposure draft apply to financial assets and financial liabilities. However, application guidance in B3 states that for financial liabilities, estimates of expected future cash flows would not reflect the entity's own non-performance risk. Therefore, there is an implication that proposals in the exposure draft apply to only financial assets measured at amortised cost. We recommend that this position be articulated by clarifying the objective.

Question 2

Do you believe that the objective of amortized cost set out in the exposure draft is appropriate for that measurement category? If not, why? What objective would you propose and why?

We agree overall with moving toward an expected loss model.

We note that the proposed expected loss model includes significant fair value information which moves the amortised cost measurement closer to a current value approach. We believe that the business model underlying the assets measured at amortised cost is sufficiently different than the model supporting assets measured at fair value. Accordingly, for those assets measured at amortized cost, we believe a different measurement basis should be used that is based on the amount the reporting entity expects to recover from holding the asset over its term, rather than the amount the entity could obtain from an immediate sale at the end of the reporting period. On this basis, we encourage the Board to confirm in the final standard that the inputs into the measurement of a financial asset at amortized cost should be entity-specific rather than market-based.

We wish to highlight that the exposure draft does not specifically address the case of debt portfolios which are usually listed and traded on an active market. Debt portfolios have more readily available market data as opposed to loan portfolios that are primarily dependent on internally generated cash flows and other entity-specific assumptions. We believe that current market prices should not be used solely as the indicator for a write-down on these securities in that expectations of loss should be based on entity-specific assumptions. Further, we encourage the development of a practical expedient for these types of asset portfolios.

Question 3

Do you agree with the way that the exposure draft is drafted, which emphasizes the measurement principles accompanied by application guidance but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?

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We believe that illustrative examples are necessary to clarify the Board's intent with respect to the application of its principles and to ensure consistency and comparability between entities. While we acknowledge that the Board's preference is not to issue detailed prescriptive guidance, general guidelines in the form of "factors to consider" may be useful to ensure consistent application. For example, two banks issuing the same loan to the same individual could arrive at different values for the loan, based purely on differences in expectation of loss. If facts and circumstances don't change during the life of the loan, both banks will recognize different profit emergence and gain/loss at settlement. Interpretive guidance is therefore required to narrow the range in practice/assumption setting between reporting entities, and to assist in achieving the comparability objective of financial reporting.

Further clarity is required on how the principles would be applied to revolving loans. For example, would an expectation of loss be based only on amounts currently drawn or on full capacity of the loan even if the extent of additional amounts to be withdrawn is often unknown? If subsequently, further amounts are borrowed by a customer, does that warrant recognition of further expected losses?

We encourage the recommendations of the Expert Advisory Panel be incorporated in the final standard through the use of illustrative examples.

Question 4

(a) Do you agree with the measurement principles set out in the exposure draft? If not, which of the measurement principles do you disagree with and why?
(b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?

Further clarity is required around the Board's intention when estimating future cash flows. For example, should they be based on current data or expectations about future conditions with respect to economic data such as employment information and the value of collateral supporting the loan? Additional illustrative examples may assist in clarifying the Board's intent in this area and provide helpful information to preparers of financial statements.

We also believe that the impairment provisions should be based on an "open portfolio of assets" (allows similar loans to flow in and out of the portfolio over the life of the instrument) and not on an individual instrument or closed portfolio basis. Although losses are expected and can be estimated on inception on a portfolio basis, it is not possible to identify the specific loan that a credit loss will be incurred at initial recognition nor is this approach consistent with how the business is managed.

Please also see our response to Question 2.

Question 5

(a) Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortized cost in the exposure draft clear? If not, how would you describe the objective and why?
(b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortized cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?

We agree with the objective outlined in the exposure draft.

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Question 6

Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

We believe that separately presenting interest rate risk in interest income and credit risk as a provision for credit losses outside of interest income is the most transparent performance statement presentation as it provides sufficient clarity to users of financial statements and is consistent with the presentation of financial information that is used to manage these risks.

We do not support a proposal to combine both of these items in the same line item on the face of the performance statement. The proposal to recognize the initial expectation of loss through investment income but subsequent changes through the change in provision line (i.e. outside of net investment income) is not consistent. This would lead to lack of transparency in that a reader of the financial statements cannot discern the net investment income on loans or the total credit risk that has been realized through the financial statements. We recommend that consideration be given to having both the initial recognition and subsequent changes recorded in the same financial statement line item.

Another inconsistency arises as losses identified at inception are recognized over the life of the instrument but subsequent changes in estimates are recognized immediately. We recommend that all losses be recognized over the remaining life of the instrument so as to be consistent with the EIR approach.

Question 7

(a) *Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?*

(b) *What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?*

We generally agree with the proposed disclosures.

However, where data is available and/or when it is part of the business model of an entity, consideration should be given to providing a “loss emergence table” (akin to a claims development table under IFRS 4), which compares expected losses to actual losses incurred during the period. This would highlight management’s ability to accurately forecast expected losses and would also help the user understand the movements/changes in the Statement of Comprehensive Income relating to loan loss impairments. This type of disclosure is very effective in the insurance industry where such estimates are pervasive.

Consideration should also be given to allow some flexibility in disclosures for smaller size organizations in terms of relevance and availability of information for these entities.

Question 8

Would a mandatory effective date of about three years after the date of issue of the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?

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We would like to stress that sufficient lead time of *at least* 3 years is essential to successfully implement these requirements. As multiple interest rates need to be tracked in the system at the asset level, this may require substantial system changes which may take in excess of 2 years to complete.

Furthermore, the requirement to restate comparative information reduces the implementation time allowed by a year. We therefore recommend that the standard be effective no earlier than 2014.

For insurance companies, it is imperative that the effective date of IFRS 9 (including impairment and hedging components) be commensurate with the effective date of the revisions to IFRS 4, to avoid multiple implementations and potential reclassifications (including multiple restatement of comparative periods). This would be extremely disruptive to both preparers and users of financial statements.

Question 9

(a) Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?
(b) Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?
(c) Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirements to restate comparative information would affect the lead-time please describe why and to what extent.

The transition requirements would benefit from an illustrative example to achieve consistent application of the principles.

Please also see our response to Question 8.

Question 10

Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?

We have no additional comments on this section.

Question 11

Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?

We are encouraged by the IASB's explicit recognition of the need for practical expedients, including those outlined in Paragraphs B15-B17. For non-financial institutions that do not have access to loss/default information, strict compliance with the exposure draft would be extremely difficult and would pose significant audit challenges to validate management's expectations of loss at inception.

However, we encourage the IASB to consider whether it would still be onerous for reporting entities to apply the requirements of the standard, if entities are required to prove that the effects of applying this guidance is immaterial.

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We encourage the IASB to incorporate the recommendations of the Expert Advisory Panel in the final standard, subject to sufficient Due Process.

We note that the Canadian life insurance accounting model already incorporates an expected-loss type model in the valuation of insurance contracts under Canadian GAAP. The Canadian insurance industry had the opportunity to share the specifics of this model with IASB staff through a roundtable that was held by the Canadian Accounting Standards Board in March 2010. We believe there is insight within this model for other practical expedients that could be of benefit to the IASB staff in formulating the application of the expected loss model in the final standard.

Question 12

Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?

The expected loss model is used extensively under Canadian GAAP insurance contract liability accounting, whereby an expectation of loss on assets backing insurance contracts is incorporated into the discounting approach. Under the Canadian model, a practical expedient is used to apply a "margin" (i.e. provision for adverse deviation) for uncertainty in the cash flow estimates. This margin would vary by the credit risk (rating if publicly traded) of the asset and is applied uniformly based on the risk. This model works well in Canada and is verifiable by external auditors. Consideration of similar practical expedients in the final standard on financial instrument impairment would be beneficial to preparers and users/auditors.

The principles as currently drafted by the IASB seem to imply that an expectation of losses is applied at inception of the loan, yet further changes to that expectation are based on changes in facts and circumstances, which typically are precipitated by a "trigger event" (either specific to the borrower or broader macro/economic climate). This would imply that a preparer, after making their initial assessment of expected loss at inception of the loan, would not make subsequent changes unless a trigger event has occurred (and would be obligated to evaluate whether such "trigger events" have occurred at the end of each reporting period). Acknowledgement/recognition of this "practical expedient" in the standard would be helpful to preparers when trying to apply or implement the final standard, particularly for non-financial institutions that may have less sophisticated loss default models/historical information.

Other comments

Although we have provided comments on the exposure draft as presented, we understand that alternatives are being developed and we recommend that the IASB and the Expert Advisory Panel carefully consider any additional alternatives, including field testing where practicable, to ensure the proposals provide decision useful information, and can be implemented.

We may have additional comments on this Exposure Draft once we have had a chance to review the FASB's comprehensive Exposure Draft on financial instruments and hedging.

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