April 6, 2011

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

Re: Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI Canada) is pleased to provide comments on the Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* (the SD).

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.

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. Given that our membership covers a broad composition of financial statement preparers and industries, we have focused our comments in two broad areas; A. General comments; and B. Specific technical comments, rather than a detailed response to each of the questions posed in the SD.

A. General comments:

As outlined in our letter to the IASB dated June 30, 2010 Re: Exposure Draft – *Financial Instruments: Amortised Cost and Impairment* (the ED), we are in agreement with moving to an expected loss model to provide more decision useful information and encourage the IASB to work with the US Financial Accounting Standards Board (the FASB and collectively, the Boards) to achieve one converged standard in the area of accounting for financial instruments.

We appreciate the IASB's efforts to address the concerns raised by constituents and are supportive of the efforts to simplify accounting by decoupling interest income and credit risk information in the proposals in the SD.

Due process concerns:

While we are optimistic for the possibility of convergence given the issuance of the SD proposing a common approach with obvious compromises made by the Boards, we are concerned with the

piecemeal approach taken to the development of a comprehensive standard for financial instruments, in particular for the development of an impairment model for financial assets held at amortised cost. The SD introduces various new concepts for a seemingly narrow scope of financial assets (i.e. assets managed in an open portfolio and held at amortised cost) which could, without sufficient input from constituents, have implications for other impairment topics and areas that have yet to be deliberated (e.g. individual assets, closed portfolios, measurement of impairment, debt securities, etc.). It is therefore difficult to assess the intended results of the entire model based on the objectives and principles set forth in this narrow set of proposed guidance.

We believe that it is imperative that the IASB seek formal input from constituents, including performing adequate field testing on these and the remaining proposals of the impairment model, and the financial instrument standard in its entirety before publishing the final standard to ensure that the proposals provide the intended results across all asset classes and all industries. Consistent with the recommendations of the Financial Crisis Advisory Group to address the concerns of the G20, we are supportive of simplifying financial reporting by having a single impairment model for all financial assets. This will remove the complexities with scope determination and definition of asset classes which will reduce the room for subjectivity and opportunity for structuring.

Convergence considerations:
We note that there are several fundamental aspects of the SD that have not been deliberated by the FASB, including scope exclusion for short-term receivables (paragraph 1), use of straight line (discounted or undiscounted estimate) or annuity approach to determine time-proportional expected credit losses (paragraph B8), choice of discount rate as any reasonable rate between (and including) the risk-free rate and the effective interest rate (paragraph B10), and presentation and disclosure (Appendix Z). We are concerned that the Boards may end up concluding differently and creating final standards that are potentially divergent. We strongly urge the Boards to jointly discuss and deliberate all issues in order to eliminate the risk of certain aspects being different, resulting in guidance that is not converged.

We would like to reiterate the concern expressed in our previous letter on the ED that the Boards currently are not converged regarding the classification of financial instruments which will impact the application of any impairment guidance. Although the FASB has tentatively changed its position on a full fair value model, the guidance remains to be significantly different resulting in the application of the impairment guidance to a different set of assets based on their classification under IFRS and US GAAP. For example, purchased loans could qualify for amortised cost measurement assuming the business model and cash flow characteristic tests are met in accordance with IFRS 9 *Financial Instruments*, however would not qualify for amortised cost as it is not a lending activity as required by the tentative decision on the FASB's update, *Accounting for Financial Instruments*.

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B. Specific comments:

Scope (Question #2):
The proposed model appears to be tailored to specific types of assets for a specific industry, namely consumer loans in the banking industry. For example, the concept of open portfolios has little meaning in practice in the insurance industry which typically manages its assets on an individual basis for credit risk management purposes as part of its asset liability management. The concepts described in the SD relating to open portfolios and credit risk management by good book/bad book, capture the way loans are managed by banks and other lending institutions, however it is unclear how these concepts and this model could be applied to financial assets assessed individually for impairment. If these proposals were to be applied to require grouping of assets that are otherwise managed on an individual basis, this would result in a change to internal credit risk management policies and processes which would driven by accounting rules, rather than prudent risk management practices.

Areas where more guidance is required:
We are concerned with the level of subjectivity that has been introduced by the SD, including definition of open portfolios, foreseeable future, and choice of method for determining expected cash flows including use of discounted or undiscounted values. The lack of clarity will result in limited comparability among financial statement preparers. Though we are supportive of principles-based requirements, more guidance is needed to ensure some level of consistency, otherwise there will be significant diversity in practice. We believe that the subjectivity of these items could be addressed through appropriate disclosures of the Company's practices (i.e. how the entity has defined "foreseeable future" etc), however, there are alternative ways to reach the objectives without having to introduce and define new concepts, as discussed below.

"Foreseeable future" and minimum allowance amount (floor) (Question #9):
The interpretation of the term "foreseeable future" requires significant judgement which we are concerned could result in significant divergence in practice and hinder the objective of comparability. We believe additional guidance or transparent disclosure of the entities interpretation / application of the term "foreseeable future" is necessary in order to ensure comparable application. We are also concerned that regulatory bodies may have established existing precedents which will be difficult to overcome. In addition to regulatory influence, there may be divergence in practice based simply on the systems and data that are available to a particular entity since that would significantly dictate the ability to reasonably support a projection and result in differences in expense recognition. It appears that the performance statement for entities with more sophisticated financial systems and tools to forecast and obtain data beyond a 12 month period could be penalized as the losses expected over a longer period would be recorded up front.

Further, the guidance in paragraph B14 considers the foreseeable future period to remain constant, however it may be possible for the period to change based on the phases of a business cycle or during times of a financial crisis; or perhaps the floor is only necessary for a specific class of assets with specific characteristics and may not make sense for most assets (e.g. where there is not an early loss recognition

pattern). This would limit the additional operational burden imposed by the requirement to prepare two expected loss calculations at each reporting period.

Alternatively, a minimum allowance amount could be defined as the amount that can be estimated based on observable data indicating that there is a measurable decrease in the estimated future cash flows which is the concept from existing *IAS 39 Financial Instruments: Recognition and Measurement* guidance for uncollectability. This would result in ensuring that the allowance is at least equal to those credit losses when they are expected to occur as stated in paragraph BC63 and remove the requirement to define the concept of what are considered "reasonable and supportable information" used in the development of projections (paragraph B12) and the foreseeable future being the future time period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections (paragraph B11).

This concept is already familiar and the systems and processes are already in place to generate the estimates. The use of the time-proportional amount over the life of the asset would require losses to be recognized earlier and the amount of losses based on observable data would ensure that the allowance is sufficient when losses arise. Changes in estimates that are supportable by observable data would be recorded in income immediately, and changes in expected losses over the life of the asset would be spread on a time-proportional basis. This model could be applied to all financial assets including individual securities, since they will likely be subject to the floor.

Disclosures (Question 18Z):
Overall, we believe that the proposed additional disclosure requirements are too detailed, in particular given the limited scope of application of the SD proposals which we believe do not provide information that is useful to users. Instead, we would urge the IASB to consider any additional disclosure requirements in the context of what the risk management framework is of the entity and in light of the existing disclosure requirements under IFRS 7 *Financial Instruments: Disclosures* regarding credit risk and focus on a more principles based approach rather than a detailed disclosure checklist. We support a principles-based disclosure requirement similar to the requirements in IFRS 7 which provide for discussion of risk management objectives and processes, analyses of balances and factors that an entity considers in making estimates.

Use of practical expedients:
We would like to reiterate our encouragement for the IASB to incorporate practical expedients as we discussed in our June 30, 2010 letter regarding the ED. In line with the objective to simplify accounting for financial instruments, consideration must be given to whether it would be onerous for reporting entities, particularly those that are less sophisticated and not financial institutions to apply the requirements of the standard in full in all situations. For example, the potential requirement to perform dual calculations at each reporting date for the good book, application to short term receivables and effects for non-financial institutions would not appear to provide sufficient benefit to the users of financial statements to justify the significant costs that would be required to perform such calculations on a quarterly basis for these entities. Limiting the scope and introducing various models can open up

problems with respect to scope determination and allow for the opportunity for structuring transactions to meet a certain result.

We appreciate your consideration of the comments made in this letter. We believe that additional guidance and clarification is needed as well as finalization of areas yet to be deliberated and therefore we recommend that the IASB consider re-exposing the comprehensive standard, including Classification and Measurement, Impairment, Hedging and Offsetting together with the FASB, rather than pushing towards a June 30 deadline. This would ensure that any cross-cutting effects are dealt with and there are no unintended consequences. In particular, we have noted that there does not appear to be a coordinated approach to aligning the requirements of disclosure and effective dates/early adoption provisions in the various standards impacting financial instruments, including Fair Value Measurement, Financial Instruments with Characteristics of Equity, and Derecognition Disclosures (amendment to IFRS 7), in addition to IFRS 9. This may lead to additional confusion and inconsistency in the application of these standards.

Regards,

Tyrone Cotie
Chair
Committee on Corporate Reporting
FEI Canada