

22 April 2009
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Madam/Sir

Request for views on Proposed FASB Amendments on Fair Value Measurement and to Impairment Requirements for Certain Investments in Debt and Equity Securities

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the request for views on proposed FASB amendments to the US requirements on fair value measurement and impairment that the IASB issued on 20 March 2009. This letter is submitted in EFRAG's capacity as a contributor to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of any IFRS or IFRIC on the issues covered in this letter.

The IASB is seeking views of interested parties on two sets of FASB proposals (both of which have since been approved—with some amendments—by the FASB as final amendments. The first set of proposals involve new guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The second set of proposals involves some changes to the impairment loss recognition and measurement requirements that apply to certain financial instruments. This request for views is not an IASB due process document and our understanding is that, should the IASB decide to take any action, they will be subject to the IASB's due process.

In October 2008 the IASB and the FASB issued a joint announcement emphasising the importance of working co-operatively and in an internationally co-ordinated manner to consider accounting issues emerging from the global financial crisis. In a further joint announcement on 24 March 2009, the IASB and the FASB stated:

“Building on work underway, the two boards have agreed to work jointly and expeditiously towards common standards that deal with off balance sheet activity and the accounting for financial instruments. They will also work towards analysing loan loss accounting within the financial instruments project.”

We have stated on other occasions, and would like to reiterate, that we are in favour of such joint efforts. The existing financial instruments reporting requirements have raised a lot of concerns in the light of the financial crisis and many of those concerns have been discussed in the letters that EFRAG has issued in relation to the financial crisis

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over the last few months¹. Various stakeholders—including preparers, users, regulators and politicians—have been very critical about fundamental areas of the existing requirements, such as classification and measurement of financial instruments and impairment loss. It is very important that these concerns are addressed in a comprehensive manner. Furthermore, virtually everyone—including the G20, the European Commission and the IASB/FASB Roundtables—have agreed that global solutions are needed.

However, the FASB's unilateral amendments to the fair value guidance and impairment requirements raise a number of concerns.

- (a) Firstly, the FASB's actions do not appear to be consistent with the notion of “working co-operatively and in an internationally co-ordinated manner
- (b) We are very concerned that, in the current climate, unilateral changes to requirements by one partner will create pressure on the other partner to follow suit and will as a result fuel a move towards accounting standards representing the lowest common denominator. This could further damage investors' confidence in financial reporting.
- (c) Amendments in the nature of piecemeal quick fix solutions will inevitably slow down the development of a comprehensive global solution to the concerns mentioned above and as a result will pose a threat to what is already a very tight timetable.
- (d) We are concerned that the FASB issued its proposals in haste and with a comment period of just two weeks, and finalised the positions so quickly—even though the changes could have a significant impact on financial instruments reporting. Such standard setting has a tendency of not taking properly into account the needs of all stakeholders and as a result may compromise on the quality of the financial reporting standards and information provided to users.

Having said all that, our overall recommendations are as follows.

- (a) We are strongly of the view that the IASB needs to move rapidly to a conclusion on the work it is carrying out. A new standard on recognition and measurement of financial instruments that would replace IAS 39 needs to be developed as soon as possible and important aspects of that work need to be in place in time for implementation in the 2009 financial statements. The IASB needs to organise its work with those timescales firmly in mind.
- (b) We urge the IASB to maintain a due process that enables its constituents to provide high quality input to the standard setting process. This is crucial for the legitimacy of the IASB as a global standard setter.
- (c) We continue to believe that it is preferable that the IASB and the FASB commit themselves to delivering a global single solution on financial instrument accounting. However, we think it is important that both parties are realistic as to what is achievable in this regard.

Finally, we have compared at a high level the FASB amendments and concerns that have arisen under IFRS. In summary our views are that:

¹ EFRAG's comment letter of 30 September 2008 on the IASB discussion paper “Reducing complexity in reporting financial instruments”; EFRAG's comment letter of 16 January 2009 on the IASB's exposure draft “Investments in debt instruments”; and EFRAG's response of 2 April 2009 to the Financial Crisis Advisory Group's request for input.

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- (a) we would prefer further improvements to the fair value measurement guidance under IFRS to be built on the guidance in the Experts Advisory Panel Report "*Measuring and disclosing fair value of financial instruments in markets that are no longer active*" published in October 2008 rather than importing piecemeal changes from the US GAAP into IFRS. However, we support the IASB's commitment to evaluate the compatibility of the guidance in the Experts Advisory Panel Report with the FASB's amendments as stated in the IASB's communiqué of 7 April 2009 and encourage the IASB to issue necessary clarifications in that regard as soon as possible; and
- (b) we believe that in order to improve significantly the impairment loss recognition requirements for financial instruments under IFRS, a comprehensive model of impairment loss recognition for all financial instruments is required. However, the IASB might consider some ideas underlying the FASB amendments to impairment recognition and measurement requirements when developing the comprehensive impairment model.

If you would like further clarification of the points raised in this letter, please contact either Paul Ebling or me.

Yours faithfully

Stig Enevoldsen
EFRAG, Chairman