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The Director General delegate

Thursday, January 15th, 2009

FBF response to the Exposure Draft "Investments in Debt Instruments –Proposed amendments to IFRS 7".

Dear Sir,

The French Banking Federation is pleased to comment on the Exposure Draft « Investment in Debt Instruments – Proposed amendments to IFRS 7" and would like to point out that we share comments provided by the Conseil National de la Comptabilité (CNC).
We do not support the proposed amendment.

The issue mentioned in the European Commission's letter sent to the IASB at the end of October was related to impairment of financial assets. One of the solutions discussed and proposed during the three round tables held at the end of the year was disaggregation of the impairment loss recognized for available for sale debt instruments. We strongly regret that the ED does not give any satisfactory answer to this request.

We feel that the information required by the ED leads to move towards a full fair value model as the two measurement scenarios proposed are required for all debt instruments except those classified as at fair value through profit or loss. As already mentioned in our previous comment letters, we strongly disagree with this approach to accounting for all financial instruments.

We believe that information disclosed should be consistent with the way debt instruments are managed and classified. Adding to the financial statements disclosure of two measurements (amortized cost and full fair value) of debt instruments will be confusing for readers. This will not enhance comparability between investments in debt instruments and will make financial statements lose their credibility.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Pierre de Lauzun

Sir David TWEEDIE
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Appendix

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.
Do you agree with that proposal? If not, why?

The FBF does not agree with the proposal.

We understand that the ED is a way to move towards to the full fair value measurement. We are strongly opposed to this approach to accounting for all financial instruments. We believe that information disclosed should be consistent with the way debt instruments are managed and classified. So, the two measurement scenarios proposed are not relevant with the economic reality.

Moreover, the BC 4 and the BC5 of the ED say that preparers and users advocate for the disaggregation of the impairment loss of the AFS debt instruments. But instead, the ED proposes a two measurement scenarios applied to all debt instruments without any consideration of the classification of the instruments.

What would you propose instead, and why?

We consider that, as a first step on the impairment of financial assets issue, the useful information about impairment losses recognised for available-for-sale debt instruments would be the following disaggregated information between:

(i) the incurred loss portion—determined in the same way as for debt instruments measured at amortised cost using the incurred loss model; and

(ii) the remainder of the fair value change.

This information improves transparency of the fair value decline in debt instruments classified as available for sale and permits comparison with the incurred losses recognised for debt instruments accounted for at amortised cost.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.
Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

The FBF does not agree with any reconciliation as using two alternative classification scenarios does not provide relevant information and does not take into consideration the economic reality of the transactions managed. To our opinion, requiring information under two measurement scenarios will not enhance of the usefulness of financial information.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.
Do you agree with that proposal? If not, why? What would you propose instead, and why?

The FBF does not agree with the proposal.

Disclosure is already available in the notes or in the statement of financial position. Therefore, the format used to provide this information should be left at the discretion of the preparers. Collecting and analysing information to provide disclosure required leads to that costs will exceeds the benefits of usefullness of the information.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.
Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

The FBF agrees with the scope exclusions for debt instruments classified as at fair value through profit or loss, should the proposed amendments be confirmed. Information should be consistent with the way financial instruments are managed and classified.

Question 5
Do you agree with the proposed effective date? If not, why?
The FBF does not agree with the proposed effective date.
Should the amendment be adopted, required information needs to be collected and analysed before being disclosed. Therefore such short time implementation would be unrealistic regarding the significant information to be collected.
Furthermore, even if information could be available, backdating the effective date would not permit comparability of information between entities, because for some entities, annual ending period is previous than 15th December and legal endorsement is required for the amendment to be applied to others.
What would you propose instead, and why?
Should the amendment be adopted, the FBF suggests applying the amendment for annual periods ending after 1st January 2009. Comparative information relating to periods before the date of initial adoption is not required.

Question 6
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?
The FBF agrees with the transitional requirements which exempt preparers from producing comparative information.