Accounting Standards Board

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2 April 2009

Dear Stig

EFRAG's Draft Comment Letter on FCAG's request for input

Thank you for providing the UK Accounting Standards Board (ASB) with the opportunity to comment on your draft response to the Financial Crisis Advisory Group's (FCAG's) request for input published on 10 March 2009.

We note that EFRAG has today published its final response to FCAG. This letter therefore sets out, just for the record, that the ASB broadly agrees with the content, analysis and conclusions reached by EFRAG in its draft comment letter. The ASB has responded directly to the FCAG on its request for input and a copy of our letter is attached.

Should you have any queries regarding our response please contact me, or Seema Jamil-O'Neill, Project Director, on +44 207 492 2422 or by email s.jamiloneill@frc-asb.org.uk.

Yours sincerely

Ian Mackintosh
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FRC

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Adam Van Eperen
Financial Crisis Advisory Group
c/o US Financial Accounting Standards Board

By email: **ajvaneperen@fasb.org**

2 April 2009

Dear Adam

Re: Financial Crisis Advisory Group's request for input

This letter sets out the UK Accounting Standards Board's (ASB's) comments on the Financial Crisis Advisory Group's (FCAG) request for input, published on 10 March 2009.

We welcome the efforts of both the IASB and FCAG in consulting with constituents on these very pertinent issues. The financial crisis has raised some significant questions about the regulatory environment and there has been criticism of the role played by financial reporting in exacerbating the crisis. We would encourage the IASB to consider any concerns relating to financial reporting thoroughly and follow appropriate due process before proposing any changes to IFRS.

In this regard, the ASB would like to highlight a particular area of concern about the recent FASB staff positions FSP FAS 157-e '*Determining Whether a Market is Not Active and a Transaction is Not Distressed*' and in FSP No. FAS 115-a, FAS 124-a and EITF 99-20-b '*Recognition and Presentation of Other-Than-Temporary* Impairments', proposed for issue on the 2 April 2009. The ASB believes that the proposed changes in this key area are undesirable. We believe that introducing them would make it more difficult to find a truly global solution in developing improved guidance on fair value measurement in illiquid markets. Non-convergence is likely to increase complexity and confusion for investors. Therefore, we would prefer that FASB did not finalise these staff positions.

We provide detailed responses to the questions included in FCAG's request for input in the appendix to this letter.

If you would like to discuss any of the comments made above then please contact Seema Jamil-O'Neill on 020 7492 2422 or myself on 020 7492 2434.

Yours sincerely

Ian Mackintosh
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APPENDIX: UK ASB's RESPONSE TO THE QUESTIONS RAISED IN FCAG'S REQUEST FOR INPUT

Question 1 – From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

1) The causes of the global financial crisis have been reviewed extensively in various fora. The most recent review in the UK is the Turner review[1], which provides a regulatory response to the global banking crisis. Many have questioned the role financial reporting has played in the crisis. However, as the FRC's response to the UK House of Commons Treasury Committee's inquiry on the banking crisis notes "the FRC does not believe that financial reporting, in particular fair value accounting, has caused the current market turmoil, but acknowledges that there is a need for the IASB to review existing requirements to see if improvements can be made." It goes on to caution that "changes should not be made unilaterally by other authorities or regulators".

Objectives of financial reporting

2) It is important to consider the objective of financial reporting. Under the IASB's current Framework, the objective financial reporting is to "provide information about the financial position, performance and changes in financial position of an entity" that enable users to make economic decisions.

3) Therefore, when setting any accounting standards, standard-setters have to consider the best means to achieve this objective.

4) Recently there have been numerous calls for accounting standard-setters to also have regulatory and financial stability objectives. The ASB disagrees with this stance. In response to the IASCF Trustees Constitution Review Part 2[2], the FRC noted that

> "…we fully support the capital markets focus of the organisation's primary objective. The FRC is aware that the current credit crisis has led to calls for the objectives of converging accounting standards and prudential rules to be aligned. In our view, such calls need to be resisted, as they do not take into account that financial reporting and regulatory reporting are seeking to satisfy two different objectives. The purpose of financial reporting is to portray neutral (unbiased) view of economic reality for investors and other users with a need for financial information. The purpose of prudential regulation is intentionally biased towards protecting depositors (and policyholders) ahead of shareholders."

[1] The full text of the Turner Review can be accessed on the FSA website as follows http://www.fsa.gov.uk/pages/Library/Corporate/turner/index.shtml

[2] The full text of the FRC response to the IASCF Trustee Constitution Review Part 2 can be found at the FRC's website as follows http://www.frc.org.uk/publications/pub1897.html

5) Over the past few months, there has been concern amongst market participants that financial reporting has not identified the issues of concern during the financial crisis. In particular, these criticisms have focused on the requirements around consolidation or non-consolidation of various off-balance sheet vehicles, the pro-cyclicality inherent in fair value accounting requirements and the disclosure requirements relating to financial instruments.

Consolidation Requirements

6) As far as we are aware the key areas identified for improvement under IFRS have been the disclosure requirements surrounding the off-balance sheet entities. There has been criticism from investors on the lack of transparency of the potential impact for the company if these off-balance sheet vehicles had to be brought on-balance sheet (as was the case at the end of 2007). To address this issue the IASB has recently issued ED 10 *Consolidated Financial Statements* which proposes improvements in the disclosure requirements.

7) In its response to the IASB on ED 10, dated 18 March 2008[3], the ASB noted that:

"The ASB considers that the current guidance provided by IAS 27 and SIC-12 result in the appropriate entities being consolidated and hence correctly defines the boundaries of a reporting entity. Consequently, in the ASB's view, the ED should not result in the boundaries of the reporting entity being redefined and give rise to more/or less entities being consolidated. The ASB does, however, agree with the IASB that a single definition of control that can be applied to all entities would be a conceptual improvement to existing standards (since all guidance would be located within one standard and hopefully improve consistency of application). In seeking to achieve this conceptual improvement the ASB considers that clearly defining control and providing clear guidance on the application of the definition is fundamental to the project."

And it goes on to note that:

"The ASB agrees with the IASB that the global financial crisis has highlighted a need for better disclosure about the nature of, and risks associated with, a reporting entity's involvement with structured entitles that the reporting entity does not control. Whilst it is important that financial statements provide disclosures regarding risks that may not be reflected in the financial statements the ASB considers that the emphasis should remain on ensuring that the standard is sufficiently robust that financial statements correctly recognise the boundaries of a reporting entity and that it does not permit structuring opportunities."

8) Therefore, the ASB believes that IFRS has stood up well in this area by ensuring that the unconsolidated structures were considered for consolidation at each balance sheet date. The area of disclosure, where issues have been identified, is being addressed by the IASB. In our view, the more substantive issues relating to consolidation need to be considered in US GAAP.

[3] The full text of the ASB's response to IASB ED10 can be found at the ASB website as follows http://www.frc.org.uk/images/uploaded/documents/20090318%20-%20%20ASB%20response%20to%20ED10%20cover%20letter%20_FINAl_1.pdf

Fair value measurement

9) Fair value measurement has been criticised as one of the main factors contributing to the financial crisis. Questions have been raised about the reliability of fair values in volatile markets, whether in a down turn fair values are significantly out of line with the longer term fundamental values of the underlying instruments and whether the use of fair values has a pro-cyclical impact on the financial reporting.

10) IAS 39 requires entities to fair value their trading and available-for-sale financial instruments as well as all derivatives. Where there are no market values available IAS 39 requires the use of models to estimate the fair value.

11) The recent market conditions have led to fewer transactions in the market and an increased risk premium being asked by investors to take on any complex products. As a result, the market prices for the more complex instruments (including certain securitisation notes, credit derivatives and structured notes) have declined significantly from their peaks in early 2007. So the entities holding such instruments are forced to recognise losses which in turn deplete their capital thus forcing them to sell the assets at the prices prevalent in the market and recognising a cash loss. However, it is difficult to see how this cycle is any different to a clothing retailer having to sell inventory at a discount when it goes out of fashion. Neither the bank nor the retailer will provide their investors with a transparent and relevant picture by accounting for their inventory at cost (or the 'true economic value').

12) The FRC in its memorandum 'Banking Crisis Inquiry: Accounting and the Banking Crisis' dated 3 November 2008 to the House of Commons Treasury Committee[4] noted that:

> "8. The objective of using fair value in financial statements for financial instruments is to provide a current value so that financial statements provide accurate, timely and comparable information on these instruments, which reflects the economics of the underlying transactions. Use of fair value ensures that readers of the financial statements are aware of the potential value and losses arising from financial instruments. In the current market conditions, the application of fair value accounting has led to the banks in particular reporting losses earlier than on any other accounting bases. This has had the benefit of focusing attention much earlier on the banks' business models and facilitated remedial action, such as capital raising, much sooner than would otherwise have been the case.
>
> 9. The FRC does not believe that financial reporting, in particular fair value accounting for financial instruments, has caused the current market turmoil, as some have claimed. The FRC believes that the use of fair value accounting is appropriate for a range of financial instruments, particularly those that are traded in active markets or where entities otherwise manage them on a fair value basis. That said, the FRC does acknowledge that there is a need to review the existing requirements in the light of the experience of the current market turmoil, to see if any improvements can

4 Available at: http://www.frc.org.uk/publications/pub1856.html.

be made, and notes the calls that have been made for changes to be made to the relevant accounting requirements."

13) Last year the IASB enhanced its guidance on the use of fair values in illiquid markets and it will shortly be issuing an ED proposing a standard on Fair Value Measurement guidance. Although we continue to believe that fair values play a role in financial reporting that provides transparent and relevant information to investors we believe that a thorough debate needs to take place on whether the exit price fair value is the most appropriate valuation mechanism for all financial instruments, regardless of their complexity, in markets that are given to over exuberance and illiquidity. In the context of complex financial instruments we would also question the ability of financial models to fully capture all the risks and factor them into the price. For example, it is now accepted that models calculating fair values for some of the more complex structured credit derivatives significantly underpriced the credit risk (by basing the prices on very short historical data) and did not fully capture the correlation risks or the risk of a systemic decline in market liquidity. In this context, the accusation thrown at fair values as being unreliable is difficult to contradict.

Impairment provisioning

14) Another area of criticism levelled at financial reporting during the recent crisis is to do with impairment provisioning of held to maturity items. Currently, IAS 39 is based on an incurred loss model, credit losses are recognised when they are incurred. As a result, relatively fewer losses are recognised during times of economic growth or stability and relatively more are recognised during downturns.

15) The criticism of this model is that the lender is motivated to increase its lending during the growth period of the economic cycle and to decrease it during the downturn (when an increase is most needed), thus contributing to over exuberance at the top of the cycle and an excessive decline at the bottom of the cycle.

16) A number of different alternatives to this loan loss model have been suggested, including: dynamic provisioning or through-the-cycle reserving, expected loss model and economic cycle reserving (ECR). All these are aimed at anticipating losses during a downturn and check erosion of bank capital.[5]

17) The expected loss model requires that the entities perform a calculation of the expected levels of losses and provide for these in the financial statements. The aim for Dynamic Provisioning is to achieve a countercyclical outcome, so that companies increase their loan loss reserves during periods of growth for these to be released during the ensuing contraction. As a result, the highest levels of loan loss reserves held by a company will at the height of the economic cycle with the lowest being held at the bottom of the cycle. However, both these concepts are regulatory in nature and arise from a need ensure financial stability in the

[5] These options have been discussed in more detail by the Turner Review which can be accessed on the FSA website as follows http://www.fsa.gov.uk/pages/Library/Corporate/turner/index.shtml

banking system. To incorporate these regulatory notions into the financial statements would mean that information that is not directly relevant to the entity's income statement or financial position at the balance sheet date will be included.

18) The ECR, by contrast, would not impact the income statement of the entity but would instead entail setting aside of a non-distributable reserve that can then be used during the downturn to absorb losses. This approach can provide a bridge between the objectives of the financial reporting and the prudential regulation.

19) We note that this issue was discussed at the IASB/FASB Joint meeting in March 2009. The ASB would recommend that before any final positions are taken in this arena it is important to ensure that all the relevant alternatives are debated.

Disclosures

20) Some concern has been raised with the level of disclosure required for IFRS and the quality of note disclosures provided by the entities on financial instruments. We are aware that the IASB, in collaboration with the FASB, is due to commence a project on an update to IAS 39. We would recommend that a review of concise and meaningful disclosures be performed at that stage to ensure the disclosure requirements are relate directly to the recognition, measurement and derecognition requirements under that project.

Question 2—If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

21) As mentioned in our response to question 1 above, we believe that it is important to have a debate on the best alternative to the incurred loss model. To date there has been limited discussion of the potential alternatives or their consequences for financial reporting.

22) The idea of an "economic cycle reserve" (ECR) to bolster bank balance sheets, as proposed in the Turner Review, is supported by a wide range of UK investors, auditors and preparers of accounts.

23) An ECR would be built up during the upswing of the economic cycle through an appropriation from retained profits. It would be an undistributable balance sheet reserve, limiting a bank's ability to pay dividends and make share buybacks during the upswing and available to be released in the bad times. This would be in line with option (3) above.

24) The Financial Reporting Council (FRC) has been promoting the idea of an ECR both within the UK and through the Financial Stability Forum. Just before the Turner review was published, the Accounting Standards Board (ASB) organised a meeting of about 40 representatives of investors, accountancy firms, the banking industry and regulators to discuss counter-cyclical measures.

25) The consensus view of the meeting[6] was:

- there is support for economic cycle reserving if it is agreed between the bank and its regulator;
- provisions should not be implemented in a way that impacts the P&L of a company;
- the International Accounting Standards Board (IASB) should look at the requirements of IAS 39, particularly the relative merits of the incurred loss and expected loss models; and
- there are likely to be unforeseen circumstances affecting all the potential solutions being considered.

26) It follows that the ASB would not support (1) or (2) above. Neither does the ASB favour approach (6) above. The regulatory capital needs are important information for the users.

Question 3—Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

27) As noted in our answer to question 1 there were a number of different factors that led to this financial crisis. We do not believe that all facts have been fully explored in order to consider whether one area has contributed more to the crisis than another.

28) However, our initial view is that consolidation requirements under IFRS have stood up fairly well under the strain of the crisis and disclosures of special purpose entities, the area of improvement identified, is currently being reviewed by the IASB. US GAAP, however, has had problems in this area for quite come time. Even as far back as 2005, the SEC's "Report and Recommendations Pursuant to Section 401 (c) of the Sarbanes-Oxley Act of 2002 on Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers" noted that

"Although Interpretation No. 46(R) constitutes an improvement over the previously existing consolidation guidance, a number of questions remain. Many users of Interpretation No 46R find it theoretically and practically challenging to apply…

[6] Other points made by UK constituents at that meeting can be found in the ASB press notice of that meeting. The press notice can be accessed at the ASB's website as follows http://www.frc.org.uk/asb/press/pub1900.html

The Staff has noted that Interpretation No 46 (R) has resulted in a number of non-SPE type entities being consolidated such as joint ventures and jointly owned entities such as LLCs. However, it is unclear to the Staff whether Interpretation No. 46(R) has significantly increased the number of SPE entities that are consolidated…"

29) By contrast, it appears that the requirements under IFRS relating to fair value measurement and loan loss provisioning need to be reviewed to ensure that IFRS reporting continues to be as consistent and reliable during a downturn as it was during the prior growth periods.

Question 4—Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

30) The ASB supports a refined mixed attribute model. In response to the IASB consultation on this issue in its March 2008 discussion paper *Reducing Complexity in Reporting Financial Instruments* , dated 17 September 2008, the ASB considered this issue and set out detailed proposals for the IASB to consider[7]. We would recommend that you review the recommendations in that letter in full. A few highlights are noted below:

"There is no doubt that the current requirements of IAS 39 are complex and difficult to apply. Much of this derives from the wide range of financial instruments currently used, and the varying roles such instruments play in different businesses. Much of the complexity of the standard results from trying to differentiate between these roles, and to apply accounting that is appropriate to each role. Users need to be given information that helps them understand three aspects of the

- financial instruments used by the entity:
- differences in the type of instrument
- differences in the role that the instrument plays in the entity's business
- differences in the reliability of valuations

Users need to be able to understand each of these aspects, and separate gains and losses in accordance with the type of business employing the financial instruments. Some types of business are essentially an investment business, and the value of the business is no more than the value of the portfolio of investments held. For other businesses (for example retail banking) the value of the business is not only the value of the net assets currently held, but in the ability to enter into future business that generates a profit margin. Fair values can distort information (such as net interest margin in retail banking, or for an industrial company that finances a project by fixed

[7] The ASB response to the IASB's discussion paper on reducing Complexity in reporting Financial Instruments can be accessed from the ASB website as follows http://www.frc.org.uk/images/uploaded/documents/ASB%20REsponse%20to%20IASB%20-%20Reducing%20Complexity%20in%20Financial%20Instruments.pdf

rate borrowings, the margin between cashflows generated by the project and the interest costs on the funding) that is useful in projecting future business cashflows.

The current standards seek to provide this information by applying different accounting treatments, including different measurement bases, to these different categories. The resulting complexity is one way of presenting users with information that cannot be distilled more simply without loss of valuable analysis. If this complexity is not present in the measurement and accounting for the financial instruments, it will be needed in the presentation of the resulting gains and losses in the performance statement.

However, IAS 39 then builds on this necessary complexity by the further complexity of a very rules-based approach to classification and measurement of financial instruments. For example:

- the arbitrary 'anti-avoidance' tainting rules for held-to-maturity instruments
- complex criteria for the fair value option
- complex and unclear hedge accounting rules
- rule-based definition of 'effective interest rate'
- lack of clarity on when impairments are to be recognised for instruments held at amortised cost
- embedded derivatives are also a major source of complexity, especially for non-financial businesses
- the scope of the standard, and definition of financial instruments, are difficult to understand, particularly for those whose business is not primarily in financial instruments.

For short-term improvements, we consider that the IASB should consider first removing this additional layer of complexity as well as trying to find a new intermediate approach. We also consider that much of the application guidance was developed in response to particular questions raised by constituents; whilst this was helpful when the standard was first issued, it has reinforced the rules-based image of the standard and would be better replaced by a systematic explanation of the principles underlying the standard. In addition, much of the more complex material in the standard is of relevance only to specialised financial institutions. Other entities with relatively few simple financial instruments can find it difficult to identify the parts of the standard that relate to them. A redrafting that separated the general principles from detailed requirements for more specialised businesses would greatly enhance the usability of the standard."

31) The letter goes on to note that:

"We think there is considerable scope for improvement of the existing requirements of IAS 39. However, as we do not think that the IASB should conclude that full fair value is the long-term solution, these should not be regarded as intermediate steps but as simplifications to the current standard. In our view the following areas would merit further research:

(a) The classification of financial instruments reflects to some extent the presentation of gains and losses in performance statements. For example, the purpose of the available-for-sale category is to distinguish realised from unrealised gains and losses, so that the latter are reported in OCI. We think that as the presentation project develops further, it should provide the framework for reporting these separate aspects of gains and losses and enable the requirements in IAS 39 to be simplified.

(b) We believe that the held-to-maturity category could be simplified. Although the boards have previously rejected the proposal to eliminate this category, further development of the proposals in the presentation project might mean this decision can be reconsidered. If the category is to be retained, the anti-avoidance 'tainting' rules should be revisited; these are currently perceived as inhibiting entities from making the best business decisions, and can lead to lack of comparability if one entity uses the held-to-maturity category and a similar entity, either through choice or because it has made sales of investments in earlier years, does not. A better alternative would be to require full disclosure of sales from held-to-maturity portfolios, together with an explanation of why the classification remains appropriate for the remainder of the portfolio.

(c) We think that the requirements for embedded derivatives, and in particular the distinction between 'closely related' embedded derivatives and others, could be substantially improved and clarified by replacing the existing lists of embedded derivatives that meet, or do not meet, the 'closely related' concept with a general principle that expresses what that concept is intended to be, and which can be applied to determine the status of any embedded derivative.

(d) The current requirements for recognising impairments on instruments measured at amortised cost are unclear, in particular the distinction between incurred loss and expected loss.

(e) We consider that requirements of the 'effective interest rate' method of calculating amortised cost are unnecessarily complicated and 'rules-based'. It is often difficult to understand what is required for more complex instruments. Redrafting of these requirements based on a general objective of what effective interest rate is intended to achieve, that can be applied to any interest-bearing instrument, would simplify adoption of the standard by those entities not currently using it, although might impose additional costs on those entities that are already applying the standard.

(f) The scope of the standard is unclear and unnecessarily complex, and for some instruments it is necessary to go through a chain of complicated definitions to determine whether an item is in or out of the scope.

Although these changes (and in particular the last three) might increase costs for those entities that have already adopted IAS 39, and therefore implemented accounting systems that meet the existing requirements, they could produce significant cost savings for those entities that are yet to adopt IFRS. Furthermore, by removing distortions and inconsistencies caused by the existing standard, these simplifications are likely to provide improved information for users."

Question 5—What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

32) Accounting standard-setters have to balance the needs of investors, preparers and auditors whilst continuing to ensure that the objectives of financial reporting are met. It is therefore very important that standard-setters follow due process, allow sufficient time for constituents to respond and then give these responses due consideration.

33) In times of crises it may be necessary to truncate this due process to enable the standard setter to provide a swift response to urgent issues. This is harder to achieve for an international standard-setter whose constituents speak a number of different languages and have individual national concerns. However, we still believe that truncating the due process should be permitted in times of special need to ensure that matters that are justified as being urgent are dealt with as expeditiously as possible.

34) In times of crisis it is also important that a standard-setter has a set mechanism for dealing with urgent issues with adequate due-process, previously communicated with the constituents, that can be activated at short notice. It is important that constituents are aware of the triggers of such an emergency due process and what it entails in advance. This would enable the standard-setter to act quickly and decisively in the face of any future crises.

35) In the FRC's response to the IASCF Trustees Constitution Review Part 2, it noted that the fast track procedures for changes in IFRS

> "should not deviate too greatly from the elements in the normal due process. We also note that the National Standard Setters in their November 2008 communiqué[8] offered to assist the IASB in developing an effective due process to apply in these circumstances. National Standard Setters can play an important role in stimulating debate among national constituents, holding round tables on technical issues and acting as the focal point for comments – again supporting our contention that the fast track process should not depart significantly from what should happen under normal circumstances. We would strongly encourage the Trustees to take up that offer."

Question 6— Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

36) We firmly believe that the IASB should continue to cooperate with bodies such as the G20 and the FSF as well as working with the FASB. All these organisations need to ensure that a globally consistent approach to accounting is taken in these

areas that will improve financial reporting. Furthermore, IASB would need to work with banking regulators to arrive at the best solution for the replacement of the incurred loan loss model that enables financial stability without compromising the integrity of financial reporting.

Question 7—Is there any other input that you'd like to convey to the FCAG?

FASB's FSPs

37) One of the G20 action points for the key global accounting standard-setters was that they should work intensively toward the objective of creating a single high quality global standard. In this regard, we are concerned about the recent FASB staff positions FSP FAS 157-e '*Determining Whether a Market is Not Active and a Transaction is Not Distressed*' and in FSP No. FAS 115-a, FAS 124-a and EITF 99-20-b '*Recognition and Presentation of Other-Than-Temporary* Impairments' which are proposed for issue on the 2 April 2009. We have responded separately to the IASB on this matter raising the concern that as well as being undesirable at this moment these unilateral changes by the FASB in this key area would create unnecessary challenges for a global solution to be found in developing improved guidance on fair value measurement in illiquid markets. We would advise the FASB against finalising these staff positions.

Guidance on Going Concern

38) We would also like to take this opportunity to raise an issue with the guidance on going concern included in paragraph 25-26 of IAS 1 '*Presentation of Financial Statements*'. Paragraph 25 of IAS 1 requires the use of going concern basis "unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so". In certain circumstances a company could be unlikely to continue trading but management would not intend to liquidate the entity or cease trading and would not be in a situation where they had no realistic alternative but to do so. We believe the wording should be revised to reflect this.

39) Paragraph 26 of IAS 1 states that "management may need to consider a wide range of factors relating to current and expected profitability… before it can satisfy itself that the going concern basis is appropriate." We would recommend that the IASB includes a requirement in IAS 1 to ensure that preparers discuss more fully the factors considered in, and the conclusion reached on, going concern.

40) In making the above amendments we would advise the IASB to liaise with the IAASB so that that Board can have the opportunity to consider whether the requirements of ISA 570 '*Going Concern*' should be revised so as to align with any changes made by the IASB.