



Australian Government

Australian Accounting  
Standards Board

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15 January 2008

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear David

**Exposure Draft of Proposed Amendments to IFRS 7 *Financial Instruments: Disclosures* –  
Investments in Debt Instruments**

The staff of the Australian Accounting Standards Board (AASB) welcomes the opportunity to comment on the above IASB Exposure Draft. In formulating its views, the AASB sought and considered the views of Australian constituents.

The AASB supports the efforts made by the IASB to address issues that have been highlighted by the credit crisis in a timely manner, so as to ensure the credibility of information available to users of financial statements. However, we have a number of concerns regarding the IASB's Exposure Draft of Proposed Amendments to IFRS 7.

*Additional disclosures*

Constituents have raised concerns that the cost to preparers of providing the additional disclosures would not be justified by significantly improved information benefits. We are concerned that the piecemeal addition of disclosures to IFRS 7, without any formal review regarding the usefulness and relevance of the existing requirements, may add unnecessarily to an already demanding Standard.

In light of these comments, we would like to raise a general concern regarding the scope of IFRS 7. We acknowledge that such disclosures are relevant and useful where a substantial portion of an entity's operating activities are financial in nature, however, we believe that the IASB should consider the appropriateness of some, or all, of the IFRS 7 disclosures to all entities. We would encourage the IASB to undertake a post-implementation review of IFRS 7 to consider the entities' whose users benefit from such disclosures (as well as the existing requirements) and limit the scope of the amendments accordingly.

*Definition of 'debt instruments'*

There appears to be confusion surrounding the meaning of 'debt instruments' and whether it includes instruments such as discount securities, bonds and floating rate notes, as the term is currently not defined in IFRSs. If the proposals were to proceed, we believe that the term should be defined to prevent the development of differing interpretations.

*Effective Date*

The effective date of the amendments to be implemented for annual periods ending on or after 15 December 2008 is a significant concern for Australia. Australian Accounting Standards are legislative instruments and under the *Legislative Instruments Act 2003* there is an impediment to making an instrument that applies to a date prior to the instrument being made.

In addition, we are concerned that the IASB's decision to back date amendments may be an impediment to efforts for obtaining a direct reference to 'IFRS' in Australian law in the future because retrospectivity is inconsistent with Australian government policy.

If the proposals in the ED are to be progressed, we believe that in order to provide users with sufficient time to obtain the data required to prepare the disclosures and to ensure that all jurisdictions are able to implement the Standards into law, the IASB should provide an effective date that is after the issue date of the amendments.

The responses to the specific questions accompanying the Exposure Draft are in the attachment to this letter.

If you have any queries regarding any matters in this submission, please contact me or Natalie Batsakis ([nbatsakis@aaasb.com.au](mailto:nbatsakis@aaasb.com.au)).

Yours sincerely



Bruce Porter  
Acting Chairman

## Exposure Draft of Proposed Amendments to IFRS 7 *Financial Instruments: Disclosures* – Investments in Debt Instruments

### Specific comments

The AASB provides the following responses to the questions raised in the Exposure Draft.

#### 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 the proposal? If not, why? What would you propose instead, and why?

No. We do not support the proposal to require entities to disclose pre-tax profit or loss information as though all investment in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for (i) as at fair value through profit or loss and (ii) at amortised cost.

We acknowledge that the proposed disclosures aim to address the concerns raised by constituents at the November 2007 credit crisis roundtables regarding the different way in which impairments of debt instruments are determined depending on their classified as either available-for-sale or held-to-maturity/loans and receivables. However, we would prefer that, rather than requiring disclosures of ‘what if’ amounts, the IASB assessed the appropriateness of the existing impairment requirements for different types of financial assets within the broader classifications, to determine the most suitable method.

We are concerned that this piecemeal approach sets an inappropriate precedent for producing ‘quick fix’ amendments for specific issues, which may inadvertently lead to yet another round of amendments. We believe that it is likely that other types of financial asset that can be classified differently under IAS 39 *Financial Instruments: Recognition and Measurement* and that are therefore treated differently for the purposes of determining any impairment, will be identified and that requests may be made to make additional amendments. We believe that the IASB should consider the methods for determining the impairment of financial assets that fall within all classifications, rather than making amendments for one specific type of asset.

#### 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?

No. We do not believe that reconciliations should be required. Paragraph 25 of IFRS 7 requires disclosure of information that permits the fair value of financial assets and financial liabilities to be compared with the carrying amounts. We believe that, instead of requiring a reconciliation, it would be less onerous, but similarly useful to require information to be provided that permits users to compare amounts that would have resulted under two alternative classification assumptions – i.e. assumptions used in determining fair value amounts and the present value of future cash flows for determining the impairment of debt instruments measured at amortised cost.

### Questions 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 the proposal? If not, why? What would you propose instead, and why?

We support the proposals in paragraph 30A(b) to disclose these instruments using the measurements in the statement of financial position and as if all the instruments had been measured as at fair value. However, we do not support the disclosure of such instruments as if they had all been measured at amortised cost.

Paragraph 25 of IFRS 7 already requires entities to provide fair value information for each class of financial assets and financial liabilities and therefore, presumably, fair value information about the specific types of financial assets (such as debt instruments) within the broader classifications are readily available. However, we believe that it would be burdensome for entities to determine the amortised cost of instruments that are accounted for using a different measurement basis – a great deal of information would be required and some entities may not have the resources to undertake the calculations. Based on this, we are uncertain whether the perceived benefits would justify the additional costs and effort involved in making the disclosures about amortised cost.

### 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?

Yes. We agree with the proposal to exclude investments in debt instruments classified as at fair value through profit or loss.

### Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

No. As mentioned in the covering letter Australian Accounting Standards are legislative instruments that cannot have an application date prior to the instrument being made. We therefore recommend that the effective date is applicable to annual periods ending on a date after the issuance of the amendments, with early adoption permitted for those wishing to do so.

### Question 6—Transition

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Yes. We agree that comparative information should not be required, but should be permitted.