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Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

20 January 2009

Dear Bruce

Exposure Draft ED 173 *Investments in Debt Instruments (Proposed Amendments to AASB 7)*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's Exposure Draft *Investments in Debt Instruments (Proposed Amendments to AASB 7)*. The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance

PricewaterhouseCoopers is committed to providing our clients with the very best service. We would appreciate your feedback or suggestions for improvement. You can provide this feedback by talking to your engagement partner, calling us within Australia on 1800 792 111 or visiting our website http://www.pwcfeedback.com.au/

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London
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15 January 2009

Dear Sir

Exposure Draft: Investments in Debt Instruments – proposed amendments to IFRS 7

We are pleased to respond to your invitation to comment on the above Exposure Draft (the 'Exposure Draft') on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Recent economic events have focused the attention of users and preparers of financial statements on differences in the measurement of similar financial assets under existing accounting standards. Much of this attention has been focused specifically on differences in the impairment models for these assets, and some have suggested that information that improves the comparability of impairment losses recognised under these different models would enhance the usefulness of financial statements. In particular, participants at the joint IASB/FASB round-table meetings suggested that disaggregated disclosures that identify for impaired AFS debt instruments the incurred loss portion (i.e. the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost) would provide greater transparency.

We support the Board in responding to these requests for additional transparency in this area. However, the Exposure Draft does not result in disclosure of the incurred loss portion (as defined above) for impaired AFS debt instruments nor, in our view, necessarily provide more meaningful, transparent or comparable disclosures for users of financial statements.

The requirements of the Exposure Draft go beyond the information requested at the round-table meetings. The proposed disclosures of pro forma pre-tax profit or loss as if all debt instruments had been classified as at fair value through profit or loss will not result in meaningful, transparent or comparable information between different companies. For example, if a company had classified all debt instruments as at fair value through profit or loss it is likely that it would have adopted different hedge accounting strategies and, for insurance companies, a different measurement basis for insurance contract liabilities. As management will not have managed all debt instruments on a single measurement basis, it is not clear why users should assess the underlying performance of the company based on such an approach. We believe this is an example where more information is not always helpful and may well confuse users.

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On a broader level, the requirement to disclose pro forma pre tax profit or loss as if all debt instruments had been classified as at fair value through profit or loss may be viewed by some as an indication that the Board has already concluded that all financial assets should ultimately be measured and recognised in the financial statements at fair value. As we indicated in our response dated 5 September 2008 to the Discussion Paper on Reducing Complexity in Reporting Financial Instruments, we believe there is a need for an extensive, structured debate to determine the appropriate long term solution to accounting for financial instruments.

At the joint IASB/FASB round-table meetings in November 2008, we supported a proposal to amend the impairment rules for AFS debt instruments to achieve comparability with impairment of loans and receivables and held to maturity instruments, and encouraged both Boards to work together to achieve a consistent model for impairment. We continue to believe that this is a desirable solution rather than progressing the proposed disclosures at this time. Consequently, we welcome the Board's decision in December to consider urgently with the FASB the accounting for all aspects of the impairment of financial assets, as part of a broader project on financial instruments. This will enable a holistic review of all of the measurement and disclosure requirements related to impairment.

Nevertheless, should the Boards not be in a position to address the measurement requirements for impairment in a timely manner, we would support greater transparency for impaired AFS debt instruments. This could take the form of a more limited disclosure requirement that applies to impaired AFS debt instruments and that simply identifies the incurred loss portion for annual periods beginning on or after 1 January 2009, with early adoption encouraged.

We also note that the proposed effective date is for annual periods ending on or after 15 December 2008 (excluding comparatives). We recognise that, in the current economic environment, there are circumstances where limited due process and retrospective application are necessary, but we do not believe that these proposals fall into that category for the reasons discussed above and in the Appendix.

We have responded to the specific questions raised in the Invitation to Comment in the Exposure Draft in an Appendix to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7802 4555), or Pauline Wallace (+44 20 7804 1293).

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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? What would you propose instead, and why?

We do not support the proposal to disclose the pro forma pre-tax profit or loss information for debt instruments. As noted in our cover letter, this information goes beyond the information that was requested by participants at the roundtables regarding the disaggregation of impairment losses for AFS debt instruments and does not seem to provide meaningful, transparent or comparable information for users of financial statements. If all debt instruments had been classified as at fair value through profit or loss, it is likely that certain companies would have elected alternative accounting treatment in other areas to better reflect the economics of their underlying businesses. For example insurance companies might have measured their insurance liabilities using current interest rates which would also impact any pro forma profit or loss amount but it is not clear from the proposed requirements whether or how this should be factored into the disclosures.

As noted in our cover letter, we support the Board's decision in December to consider urgently with the FASB the accounting for all aspects of the impairment of financial assets, as part of a broader project on financial instruments. However, if this will not be completed in time for the 2009 reporting season, we would support a limited disclosure requirement only for impaired AFS debt instruments that highlights the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost.

In addition we also note that the Exposure Draft uses the term debt instruments which is not defined in IFRS and therefore could result in confusion as to which instruments are captured by these disclosure requirements.

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?

Consistent with our response to question 1 and the comments contained in our cover letter, we do not support the pro forma aspects of the proposed disclosures as we do not believe they provide meaningful, transparent or comparable information for users of financial statements. As a result, we do not support reconciliations between the pro forma amounts and the amounts reported in profit or loss.

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?

As noted in our cover letter, we do not support the proposed disclosure requirements as they do not achieve the objective of transparency for impaired AFS debt instruments. IFRS 7 already requires the disclosure of fair value by class of financial asset. We do not believe the one additional disclosure that paragraph 30A(b) would require of the amortised cost for available for sale assets will enable users to identify the incurred credit loss portion of impaired AFS debt instruments since it aggregates the amortised cost of impaired and non-impaired AFS debt instruments.

Rather, we support the Board's decision in December to consider urgently with the FASB the accounting for all aspects of the impairment of financial assets, as part of a broader project on financial instruments. However if this will not be completed in time for 2009 reporting season, we would support a limited disclosure requirement for impaired AFS debt instruments only that highlights the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost.

If the IASB continues with these proposals, it should clarify how the amortised cost of an AFS debt instrument should be determined. The Exposure Draft is not specific as to whether amortised cost should be determined as if the AFS debt instruments had been measured on that basis since inception or whether it is only since the AFS debt instrument was impaired.

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?

We agree that financial assets classified as at fair value through profit or loss should not be subject to the proposed disclosures. We believe that more fundamental questions relating to the objective and relevance of the incurred loss model for various financial assets should be addressed before requiring more extensive disclosures. In addition, and consistent with the Board's observations set out in BC6 of the Exposure Draft, we note that, as companies are not required to maintain amortised cost information for financial assets classified as at fair value through profit or loss, compliance with the proposed disclosures for these assets might be unduly onerous.

Question 5

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

As noted in our cover letter we do not support these disclosures. The proposed disclosures and in particular the pro forma profit or loss amounts are very complex to calculate. In order to provide the disclosures, companies will have to give consideration to many factors, including purchases and sales of debt instruments during the year, foreign exchange movements, interest accruals, principal repayments and other cash flows, hedge accounting, and transaction costs. In addition, the proposals essentially require companies to determine asset balances and profit or loss effects under a new measurement basis which is not currently captured or maintained in the existing financial reporting systems. Given the complexity involved in gathering this information, particularly in larger global financial institutions and for those companies that are required to have controls in place and tested for effectiveness in accordance with the requirements of the Sarbanes Oxley Act, we do not believe many companies will be able to provide these disclosures in the short time frame proposed in the Exposure Draft.

For some companies, complying with these disclosure requirements for December 2008 year ends could result in delays to the publication of their financial statements that would not be desirable in the current market conditions. In addition, some companies (e.g. in the Middle East) will have issued financial statements for the year ended 31 December 2008 before the proposals are expected to be finalised at the end of January, reducing comparability for these companies.

Should the Board move forward with these proposed disclosures, or our suggested limited disclosures for impaired AFS debt instruments, we believe the effective date should be changed to annual periods beginning on or after 1 January 2009 to allow a reasonable period of time for implementation with early adoption encouraged.

Question 6
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Had we been supportive of the proposals, we would agree that given the timeframe with which companies have to prepare the disclosures comparative information should not be required in the first year of application.