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Dear Kevin

AASB ED 210 & IASB SUPPLEMENT TO ED/2009/12/ FINANCIAL INSTRUMENTS: AMORTISED COST & IMPAIRMENT – FINANCIAL INSTRUMENTS IMPAIRMENT

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with some preliminary comments on ED 210 which is a re-badged copy of the International Accounting Standards Board's (the Board) Supplement to Exposure Draft ED 2009/12 (the ED). We have considered the ED as well as the accompanying Basis for Conclusions, and set out our preliminary comments in the Appendix.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are quite preliminary in nature, and a more detailed Grant Thornton global submission will be finalised by the IASB's due date of 1 April 2011.

ED still being considered

Whilst we support simplified and consistent accounting, we have a number of concerns on the new concepts of 'the floor', 'good book' and 'bad book' and we question how operational these concepts will be in practice. For example we believe the eventual Standard will need to more clearly delineate the point at which a loan moves from the good back to the bad book. However we are still liaising with our global colleagues and clients and therefore have yet to finalise our thinking in this area given the 1 April 2011 deadline of the IASB.

Our Ref: L-110317-L-110317AMAASB ED 210 IASB ED 2009-12 FININSTIMPAIRMENT.DOC

However we are firming up our views on the IASB only Appendix Z Presentation and Disclosure, and our comments are attached in the Appendix to this letter, as well as our comments on the AASB questions.

We also note that the IASB has not indicated whether it will amend the existing requirements for non-publicly accountable entities, and on that basis we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures.

Grant Thornton does not believe that at this time amendments to the existing financial instruments standard should mandatorily apply to non-publicly accountable entities. Instead Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

If you require any further information or comment at this time, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

Appendix 1: Preliminary Comments

ED questions 1 to 13

Still being considered.

IASB only Appendix Z: Presentation and Disclosure questions 14Z to 19Z

Question 14Z
Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

We agree that the determination of the effective interest rate should be separate from the consideration of expected losses. We believe that the Board's original proposal of an integrated effective interest rate (incorporating expected credit losses) reflects the economics of lending activity. However, we are also aware that such an integrated rate would be operationally burdensome to implement as accounting and risk management systems are maintained separately in practice. We therefore support the use of a non-integrated or 'decoupled' effective interest rate on practical grounds.

Question 15Z
Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

We are still considering this issue.

Question 16Z
Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

As noted above, we are still considering whether loan commitments should be subject to the impairment requirements proposed in the Supplementary Document. In relation to financial guarantee contracts, we noted in our comment letter on the Exposure Draft *Insurance Contracts* that financial guarantee contracts are very commonly associated with lending activities. In that letter we expressed the view that it would be reasonable to require financial guarantees to be accounted for in accordance with IFRS 9 rather than the eventual insurance standard, given that such contracts are very commonly associated with lending activities. Accordingly, we believe that financial guarantee contracts should also be subject to the impairment requirements proposed in the Supplementary Document.

We would not expect there to be any greater challenge in accounting for loan commitments than there is in accounting for loans. However we note that the accounting for financial guarantees may be more difficult operationally as the entity is not exposed to losses on its own asset, but to losses on someone else's asset, which will be harder to assess.

Question 17Z
Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

We agree with the proposed presentation requirements, which we believe are consistent with the revised proposals for a non-integrated effective interest rate.

As discussed in our response to question 14Z above, we support the use of a non-integrated or 'decoupled' effective interest rate on practical grounds. Should the proposal for the use of such an effective interest rate be accepted, then it will no longer be possible to adopt the presentation requirements proposed in the original Exposure Draft. We therefore support the presentation requirements in the Supplementary Document, which are consistent with the use of a non-integrated effective interest rate.

Question 18Z
(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?
(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

In our response to the original Exposure Draft, we criticised the proposed disclosure requirements for being overly prescriptive. We also expressed a preference for entities to have more discretion to disclose only those matters which are relevant to an understanding of the entity's financial performance and position.

Given these concerns, we agree with the more flexible approach set out in BZ19 in the proposed Application Guidance. This states that an entity should decide, in the light of its circumstances, how much detail it provides, how much emphasis it places on different aspects of the requirements and how it aggregates information.

We also agree with the intentions that underlie the proposed disclosures relating to the allowance account, expected credit loss estimates and credit risk management. The proposed disclosures should help improve the user's understanding of the effects of credit risk of an entity's financial instruments.

Having acknowledged the Board's efforts here, we still have some reservations however. In particular we are concerned that extensive disclosure requirements have recently been proposed in a number of Exposure Drafts relating to financial instruments. While these proposals may be seen as acceptable when considered in isolation, they may result in an overload of information when combined. Such a situation would not only contribute to a rise in preparation costs but may also serve to obscure the most important information from users. We encourage the Board then to consider undertaking an overall review of IFRS 7 Financial Instruments: Disclosures upon the conclusion of IFRS 9 so as to ensure that its disclosure requirements remain principles based and are balanced in terms of cost relative to benefits.

Question 19Z
Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

We agree. Such an approach should improve comparability and should therefore provide useful information to the users of the financial statements.

Specific AASB questions

1 Whether, overall, the proposals would result in financial statements that would be useful to users

Apart from our earlier comments, we are not aware of any issues that may impact users. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users.

2 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

a not-for-profit entities; and

b public sector entities

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals for publicly accountable entities. We believe that there are regulatory and other issues arising in the Australian environment for non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

3 Whether there are any implications for GAAP/GFS harmonisation

Apart from our earlier comments, we support the implementation of the proposals for publicly accountable entities.

4 Whether the proposals are in the best interests of the Australian and New Zealand economies

Apart from our earlier comments, we are not aware of any reasons that would impact on the interests of the Australian economy for publicly accountable entities. Our New Zealand firm may wish to comment direct to the AASB if there are any New Zealand implications. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users nor are they in the best interests of the Australian economy.

5 Unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We have no additional comments to make.