ED230 sub 4

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Ian Laughlin
Member

11 March 2013

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst

ED/2012/4 Exposure Draft: Classification and Measurement: Limited Amendments to IFRS 9 (*Financial Instruments)*

On behalf of the Australian Prudential Regulation Authority (APRA) I am writing to comment on ED/2012/4 Exposure Draft: *Classification and Measurement: Limited Amendments to IFRS 9*. APRA is the Australian prudential regulator for all financial services entities that operate in Australia.

Insurers and pension funds in Australia have used fair value measurements for assets and liabilities on the balance sheet for over a decade. Banks use fair value measurement for derivatives, and trading book assets and liabilities. Amortised cost is used for most loans and deposits in the banking book.

APRA supports the existing classification and measurement model in IFRS 9 that requires that assets and liabilities be measured at fair value or at amortised cost in accordance with an entity's business model. This model reduces complexity with the reporting of financial instruments by Australian financial institutions.

If a third measurement category, namely fair value through other comprehensive income, is introduced in IFRS 9, APRA would strongly support the IASB proposal in the ED that allows the current fair value option in IFRS 9 (to measure assets and liabilities at fair value through profit and loss) to be extended to financial assets that would otherwise be mandatorily measured at fair value through other comprehensive income. This approach minimises the likelihood of accounting mismatches for those insurers and banks that presently use the fair value option in IAS 39 *Financial Instruments: Recognition and Measurement* for measuring assets and liabilities on the balance sheet.

APRA agrees that once the completed version of IFRS 9 is available, an entity should only be able to early adopt IFRS 9 in its entirety[1].

[1] Excludes the own credit requirements that may be adopted earlier.

APRA would also like to ensure that there be matching of assets and liabilities where possible. Hence, we believe that the effective dates of the proposed insurance contracts standard and IFRS 9 need to be aligned for insurers. At present, our expectation is that insurers will have to implement two major changes in their financial statements within a few years of each other unless the IASB aligns the effective dates. This would create a significant reporting burden on preparers

We trust these comments are helpful to the IASB.

Yours sincerely

cc: Mr Kevin Stevenson – Chair and CEO AASB