



**BDO Seidman, LLP**  
Accountants and Consultants

233 N. Michigan Ave., Suite 2500  
Chicago, Illinois 60601  
Telephone: 312-616-4661  
Fax: 312-856-9019

January 20, 2009

Via e-mail: [director@fasb.org](mailto:director@fasb.org)

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. *64*

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File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

BDO Seidman, LLP is pleased to offer comments on the Proposed FSP FAS 107-a. BDO International commented on the essentially similar disclosures proposed in the IASB Exposure Draft of amendments to IFRS 7, *Financial Instruments: Disclosures*. Accordingly, we are submitting a copy of that comment letter as BDO Seidman's comments on Proposed FSP FAS 107-a.

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen, National Director of Accounting, at 312-616-4661.

Very truly yours,  
BDO Seidman, LLP

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

15 January 2009

By email [commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear Sir,

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

We are pleased to comment on the above Exposure Draft, on behalf of BDO International<sup>1</sup>.

While we understand the IASB's desire to enhance disclosures for investments in debt instruments, we do not agree with the proposals and are strongly of the view that the IASB should not pursue them. We do not believe that the proposed additional disclosures will necessarily bring improvements to financial reporting, and consider that entities will find the proposals impracticable (in particular for December 2008 financial year ends, but also in subsequent years).

If the IASB does wish to enhance disclosures, in our view these should be limited to those which were requested at the roundtable meetings, being the disaggregation of impairment losses on debt instruments classified as Available for Sale (AFS) between the incurred loss portion and the remainder of the fair value change. However, as noted in our detailed comments (see the Appendix to this letter), we believe that this information should not be mandated for December 2008 year ends, instead being encouraged. In addition, we believe that the IASB should consult further before determining whether the disclosures should be mandated at all, due to the practical difficulties that some entities will have in making the disclosures.

We also consider that it would be appropriate to add a definition of debt instruments, as this is not included in IFRS 7, IAS 32 or IAS 39. It is not clear from the Exposure Draft whether, for example, the additional disclosures are intended to cover trade receivables, or whether a more restricted range of financial assets is envisaged.

Our responses to your specific question are set out in the attached Appendix.

We hope that our comments and suggestions are helpful. Should you wish to discuss any of the points we have raised please contact either Helen Thomson at +32 2 778 01 30 or Andrew Buchanan at +44 (0)20 7893 3300.

Yours faithfully,

BDO Global Coordination B.V.

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<sup>1</sup> BDO International is a world wide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.

The network is coordinated by BDO Global Coordination B.V., incorporated in the Netherlands, with an office in Brussels, Belgium, where the Global Coordination Office is located.

*Specific Questions asked 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 that proposal? If not, why? What would you propose instead, and why?***

We do not agree with the proposals, as we do not believe that they will necessarily provide users of financial statements with meaningful additional information. We also believe that the proposals would be impracticable to implement, in particular for December 2008 financial year ends (please also see our comments about transitional arrangements below).

We note that the classification and related measurement of debt instruments can affect the risk management approach of an entity. For example, the hedging strategy can be different depending on whether amortised cost or fair value measurement is followed. In this context, it is difficult to see what useful additional information the proposed disclosures would add to financial statements. In addition, we believe that the additional disclosures may even be unhelpful to users of financial statements, as an entity might have a matched asset and liability position (giving a natural hedge). The disclosure of an alternative measurement basis for the asset side only would not provide useful information.

As noted in our covering letter, we believe that if additional disclosures for debt instruments are to be added to IFRS 7, these should be those requested at the roundtable meetings, being the disaggregation of impairment losses in respect of debt instruments classified as AFS between the incurred loss portion and the remainder of the fair value change. We note that participants at the roundtable meetings indicated that they would find this additional information useful.

However, while in some cases it may be relatively straightforward to obtain the necessary information to make the disclosures, some entities hold (for example) investments in quoted bonds which are classified as AFS. Those entities may simply use the quoted market price for the purposes of measurement in their financial statements, calculating interest income on an amortised cost basis using the effective interest rate method, and will not necessarily be aware of the breakdown of impairment losses. In consequence, these entities would appear to be unable to disaggregate impairment losses as suggested above.

We therefore suggest that the disclosures are encouraged (but not required) for December 2008 year ends and that the IASB then consults further in order to determine whether it is appropriate to go any further for subsequent financial years. If disclosures were made mandatory for future annual financial statements, then for the reasons outlined above we believe that these should be subject to practicability constraints. If an entity does not make disclosures because it is impracticable to obtain the required information, disclosure of this fact and the reasons why it is impracticable to obtain the information should then be required.

If the IASB takes this approach, we believe that any disaggregation disclosures that are included in financial statements should be permitted to be included within the notes to the financial statements, with the full amount of any impairment in the carrying value of debt instruments classified as AFS being included in the income statement (albeit that the incurred loss and other changes in fair value

might be disaggregated on the face of the income statement rather than being included in the notes if the amounts were significant and the reporting entity considered it appropriate to make that disclosure).

***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?***

If, as we believe is appropriate, the IASB does not pursue the proposals in the Exposure Draft, this question is not relevant. If, despite our concerns, the IASB does progress with its proposals, we do not believe that reconciliations should be required.

***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?***

We do not agree with the proposal. Instead, we believe that the IASB should amend IFRS 7 to encourage the disaggregation of impairment in debt instruments classified as AFS as set out in our response to question 1.

***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?***

If the IASB chooses to progress its proposals as set out in the Exposure Draft, we agree that debt instruments classified as at fair value through profit or loss should be excluded from the disclosure requirements.

***Question 5 – Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?***

We do not agree with the proposed effective date for disclosures to be made on a mandatory basis. We believe that any additional disclosures should be encouraged but not required for December 2008 financial year ends, and that the IASB should consult further before determining whether the disclosures should be mandated at all for future annual reporting periods due to the practical difficulties that some entities will have in providing the disclosures. This will give an opportunity to those entities which wish to make the disclosures to include them in their 2008 financial statements, while permitting those which either do not wish to, or find that the disclosure requirements are impracticable, to be given the necessary relief.

We note that the timing of the publication of any amendment to IFRS 7, while likely to be quite early in 2009, is such that by then a number of entities will already have published their December 2008 financial statements. If disclosures are mandatory this would imply that, in order to comply with IFRS, those entities would either have to issue an amendment to their published financial

statements or withdraw and reissue them. In our view, both of these are undesirable and are unduly onerous.

We also consider that even if they have not already published December 2008 financial statements, many entities will find it either very difficult or impossible to obtain the required information, particularly in the likely timescale as the release of the amendment to IFRS 7 will be close to many entities' reporting dates.

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

Although we agree that comparative information should not be required in the first year of adoption, we do not agree with the proposed transitional arrangements.

We note that in order to provide the income statement disclosures proposed in the Exposure Draft for the December 2008 financial year, it would be necessary for balance sheet information to be created as at 31 December 2007. We consider that this would be unduly onerous and might be impracticable.

As noted above, we consider that any disclosures to be made in December 2008 financial statements should be encouraged but not required, with further consultation being carried out in order to determine whether it is appropriate to require these disclosures in future annual accounting periods.