



LETTER OF COMMENT NO.

50

From: Angus Thomson [mailto:athomson@asb.gov.au]
Sent: Thursday, April 02, 2009 11:42 PM
To: Adam Van Eperen
Cc: Geoff Harris; Natalie Batsakis
Subject: FCAG questions [SEC=UNCLASSIFIED]

Dear Adam

Thank you for the opportunity to submit comments to the FCAG on a number of key questions relating to accounting standards.

These comments (shown in blue text after each of the FCAG questions) are from the AASB staff and have been informed by comments received from AASB members.

Regards

Angus

Angus Thomson | Technical Director

Australian Accounting Standards Board
Level 7, 600 Bourke Street, Melbourne VIC 3000
Tel +61 3 9617 7618 **Fax** +61 3 9617 7668
athomson@asb.gov.au | www.asb.gov.au

The Financial Crisis Advisory Group (FCAG) is seeking written input from constituents in the form of responses to the following set of questions, to assist the FCAG in discussing accounting and reporting matters related to the financial crisis and making recommendations thereon to the IASB and the FASB:

1. From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

The disclosure of fair value information has assisted in providing users of financial reports with relevant information during the crisis. We acknowledge that there concerns about determining fair values in illiquid markets and that many more markets have become illiquid since the crisis began. Accordingly, further work is required of standard setters in providing guidance on determining fair values.

2. If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

We generally do not support the use of dynamic provisioning in financial reporting. The objectives of financial reporting and prudential reporting are different and while some may favour dynamic provisioning in this context, our view is that financial reports should be read in the context of the current economic environment. Accordingly, if events lead

to there being greater need for provisioning in one period versus the next, that would be understood by financial report users in the context of current events. We think it's the IASB's role to set standards that require preparers to show the substance, and allow users to make their own decisions.

The IASB has undertaken to review the issues surrounding the meaning of 'significant' and 'prolonged' which relate to when impairments are recognised in income on available for sale financial instruments. This would be best tackled through a thorough due process in which the IASB is currently engaged, and may help to resolve some of the issues for which dynamic provisioning is being raised as an answer.

3. Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

We do not believe that fair value accounting has contributed to the crisis. We think that users of financial reports should be provided with information that best reflects economic reality, and they can make their decisions in the the context of that *information and all the other information available to them from other sources.*

We also doubt that structuring under IFRSs to place assets and liabilities off-balance sheet has made a significant contribution to the crisis. In any case, the IASB has also moved recently to propose revised requirements in relation to structured entities (ED 10) and the feedback from that process should be helpful in addressing concerns. Although the IASB's ED 10 proposals might not be the complete solution to the issues raised, we think that the IASB's existing process needs to run its course and would encourage the IASB and FASB to work together on the topic of consolidations and disclosures around structured entities. A sound basis for consolidation, including a definition of control, has the best prospect for achieving useful outcomes -- certainly a better prospect than developing 'bright line' rules, which only seem to generate activity designed to thwart the intent of those rules.

4. Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

We see the long term goal as being a comprehensive fair value model. However, in the meantime, the IASB recently issued guidance - 'Measuring and disclosing the fair value

of financial instruments in markets that are no longer active' in response to accounting issues that have been highlighted as a result of the credit crisis and a post-implementation review should be conducted to assess whether the guidance was useful in the current economic conditions and to assist in determining whether any further guidance is required.

5. What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

We acknowledge the need for a truncated due process in rare cases, which should involve some opportunity for any interested party to comment. We consider that short cuts to process generally lead to medium to long term problems because not all the issues have been canvassed. Additionally a less than through process has the potential to undermine acceptance of IFRSs, particularly in jurisdictions at the point of contemplating IFRS adoption.

6. Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

Not that we are aware of, however, we would like to reiterate the view that 'prudential regulation issues' and 'financial stability' are not reasons for taking on a standard setting project or for deciding on a technical accounting outcome. These are special purpose, regulatory factors and are not central to general purpose financial reporting.

7. Is there any other input that you'd like to convey to the FCAG?

Not at this stage.