



LETTER OF COMMENT NO. 27

Adam Van Eperen
Financial Crisis Advisory Group
c/o International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

2 April 2009

Dear Mr Van Eperen

ACCA is grateful for the opportunity to input to the Financial Crisis Advisory Group's deliberations. Though the time period allowed to do so has been short, the questions asked have been considered by ACCA's Financial Reporting Committee and I am writing to give you their preliminary views. We are responding in terms of IFRS not of US GAAP.

Q1. General purpose financial reporting's role during the crisis

We are not yet in a position to assess fully the answers to these questions. The number of full year financial reporting periods involved is relatively few since the crisis began. The crisis implications are not fully wound out – for example in the timeliness of provisions for losses on loans and receivables, the impairment of other assets such as goodwill and intangibles or in the extent to which values based on inactive markets turned out to be representative of the longer term values of certain assets. It is not yet clear how helpful the extensive note disclosures proved to be. A greater degree of hindsight will be needed before these questions can be properly answered.

Our perception at this point, however, is that the financial statements have alerted users to the loss of value in certain assets in a timely way, especially of those that were held at fair value.

The accounting standards include a number of implicit and explicit options which have reduced the comparability of the financial statements and made them harder to understand. For example

- the boundaries between the different categories of financial instruments allowed some flexibility of treatment,

- the reclassification amendments of IFRS in October 2008 were optional but had major impacts on reported results of different banks
- the explicit fair value option in IAS39 was widely drawn.

The reclassification amendment of October addressed some of the issues raised by the market failures, but left anomalies for instance the difference in principle behind assets held for trading or those managed on a fair value basis when markets no longer function.

Among the options available is to state liabilities at fair value with changes through profit or loss and some of the banks have reported gains as a result over the last two years. The quality of some of these gains seems rather doubtful and the results counter-intuitive. IASB should reconsider this area during the comprehensive revision of IAS39.

There seems to be a degree of variability in the application and understanding of the incurred loss model for impairment provisions.

Users did not seem always able to identify those financial institutions with exposures to the assets whose perceived risk had changed so quickly. As indicated more time is needed to assess how useful the disclosures only fairly recently introduced by IFRS7 have proved to be or indeed the extra disclosures already added by the amendments of IFRS7 in October 2008 and February 2009.

We also note that a number of financial institutions collapsed or required emergency support without there being any specific going concern issues being disclosed in the previous financial statements.

We are not yet aware of significant unjustified concerns being raised by financial reports.

Q2. Treatment of any “through the cycle” provisions

We regard the role of financial reporting as providing useful information to users of those financial statements particularly shareholders and debt providers and potential investors. In terms of loan loss provisions accounting standards should be directed to reflect the economic reality at the balance sheet. As noted above in answer to Q1 the reasonable application of the incurred loss model may need to be looked at to ensure provisions are made at the appropriate time when the

underlying event which will occasion a loss has occurred, even if it has yet to be reported as a loan default. There is a case for looking at some element of provision in the accounts for losses expected during the life of the loan, but not yet incurred.

However for any amounts required by a regulator to be set aside over and above that those derived from accounting standards, they should not be recognised as reductions of assets or as liabilities in the financial statements. If these amounts have a very direct impact on the users, for example if they were non-distributable reserves, then they should be reflected as movements between different categories of equity. Any other material reserves required for regulatory purposes should be disclosed by way of note and there are some requirements in this regard already in IAS1.

Q3. Off balance sheet items

We have already responded to IASB on their proposals in ED10. While we broadly supported these, we are not convinced that inappropriate non-consolidation has been a major problem for IFRS. Changing the existing standards and interpretation indeed risks excluding entities currently on balance sheet. We noted the considerable disclosure requirements proposed by that ED and were concerned that this might lead to a lot of information being provided about relatively insignificant matters if the standard were to be applied in too rigid a manner.

Q4. Model for accounting for financial instruments

We support a mixed attribute model with just two categories – fair value through profit and loss and an amortised cost model subject to impairment. We would not see this as an interim step towards a full fair value model. There should be a rationale for the categorisation which can then be applied in a more comparable way than the current more complicated structure with its various options. We favour a categorisation based on the business model used by the entity in its management of its operations.

Q5. Emergency issues

We have responded to the IASCF in relation to this issue. We noted that there should always be a minimum period of consultation and the use of any such emergency procedure is sanctioned by the trustees of the IASCF.

Q6. IASB and FASB working with others

We believe it is very important that the standard setters work closely with regulators. Specifically in terms of loan loss provisions and any economic cycle reserves that IASB and FASB work with the banks regulators to see the extent to which these provisions for both general purpose financial statements and for regulatory can be done on a compatible basis and that any additional reserves can be reflected appropriately in the accounts.

Q7. Any other input we would like to convey to the FCAG?

A banking crisis has become an economic crisis. FCAG need in our view to consider not just the financial reporting by banks but the impact of any proposals on all other sorts of entities as well, as nearly all reporting entities are affected to some degree by the standards on financial instruments.

Differences in accounting treatments available to US GAAP preparers and those using IFRS have been a source of difficulty during the crisis. It is important for both systems to offer as consistent solutions as possible.

If there are any matters arising from the above please be in touch with me.

Yours sincerely



Richard Martin
Head of financial reporting