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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
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Organizaçào Internacional das Comissões de Valore



14 April 2009

LETTER OF COMMENT NO. 53

Mr. Adam Van Eperen
Financial Crisis Advisory Group

Via email: ajvaneperen@fasb.org

RE: Financial Crisis Advisory Group request for written input from constituents

Dear Mr. Van Eperen:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding accounting and reporting matters related to the financial crisis under discussion by the Financial Crisis Advisory Group (FCAG).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

The request for comment seeks views on a number of questions relating to accounting and reporting matters related to the financial crisis. The primary focus of Standing Committee No. 1 with respect to accounting matters is International Financial Reporting Standards (IFRS). As such, our comments on each of the questions posed are in reference to IFRS specifically, though many apply to both sets of standards.

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.*

In our view, the use of fair values for traded items helped to provide early warning of the deteriorating credit quality of many assets. The huge changes in the mark-to-market value of many derivatives during the crisis underlines the importance of these being measured at fair value – historic cost measurement simply would not pick up changes in the economic

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exposures implied by contracts such as forwards, swaps and options as a result of turbulent market conditions.

The use of fair value during the recent period of market turmoil brought to light areas for further development of accounting standards, including the application of the fair value concept in circumstances of significant illiquidity. This includes the development and incorporation into the accounting standards of the guidance recently issued by the FASB and the IASB Expert Panel.¹ The disclosures provided by IFRS have been helpful – but have been supplemented by the work of (for example) the Senior Supervisors' Group². Consideration should be given to whether IFRS 7 should be amended to make the need for such 'supplements' less likely in the future.³

The treatment of goodwill as a recognized asset subject to impairment testing has highlighted the business implications of various prominent acquisitions made during the years of buoyant economic conditions.

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 believe that the solution to financial stability concerns regarding the relationship between loan loss provisions and capital adequacy should primarily reside with prudential regulation. The discussion on accounting principles should be primarily guided by the need to foster useful information for and transparency to investors. We recognise that information about any reserve required by prudential regulators may be useful information to users of banks' financial statements. Depending upon the nature of the restrictions, communication of this information could be via disclosure and/or balance sheet presentation.

We believe that accounting standard setters should proceed with analysis and deliberations on the appropriate accounting model for loan loss provisions. In that regard, there has recently been much discussion about what some have referred to as 'through-the-cycle' approaches. As an organization IOSCO has not evaluated the appropriateness of such approaches for financial reporting to the capital markets, so without prejudice to that appropriateness we observe that if such approaches were to be considered by the Boards then a matter for critical attention is the underlying process of calculation. Like any measurement approach, any potential method has to be methodologically well founded and consistently applied. From a practical perspective, it has to be manageable for large, internationally active banks as well as for smaller entities. Consideration would need to be given to whether any strictly formula-based approach based on historic data meets the objective.

¹ FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active* and IASB Expert Advisory Panel, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*.

² Senior Supervisors Group, *Leading-Practice Disclosures for Selected Exposures*. This report responds to the Financial Stability Forum's request that the Senior Supervisors Group undertake a review of disclosure practices regarding exposures to certain instruments that the marketplace now considers to be high-risk or to involve more risk than previously thought, including collateralized debt obligations, residential mortgage-backed securities, commercial mortgage-backed securities, other special purpose entities, and leveraged finance.

³ Press Release, Financial Stability Forum Recommends Actions to Enhance Market and Institutional Resilience: The FSF strongly encourages financial institutions to make robust risk disclosures using the leading disclosure practices summarised in this report, at the time of their upcoming mid-year 2008 reports.

There has also been much discussion about an expected loss model. Again, IOSCO has not evaluated the appropriateness of such a model but without prejudice to its appropriateness we observe that if the standard setters were to pursue it for financial reporting purposes, we believe that disclosures sufficient to enable users to assess management's judgments would be imperative.

3. *Some FCAG members have indicated that they believe issues surrounding accounting for off-balance sheet items such as securitizations 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 believe the global financial crisis has revealed significant off-balance sheet exposure and potential weaknesses in accounting for and disclosure of off-balance sheet entities, in particular with respect to qualifying special-purpose entities and securitizations. Therefore, we support a thorough analysis of this issue and, in particular, an assessment as to whether some form of clarification and additional disclosures would offer improvements. We commend the IASB and FASB for agreeing during their March 2009 joint meeting to pursue common standards on consolidation and derecognition.

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?*

Please refer to our comment letter dated 1 October 2008 on the IASB's discussion paper, *Reducing Complexity in Reporting Financial Instruments*, in which we offered our view on the long-term goal for measuring financial instruments. In that letter we stated the following:

We are generally supportive of exploring the potential value of a single measurement attribute for all financial instruments, such as fair value, in the long term. However, our support for exploring a single measurement attribute is predicated on first resolving existing actual or perceived deficiencies with IAS 39 and IFRS 7. ... Before we can fully support the long-term measurement objective of fair value, we believe there are short-term issues that require immediate attention.

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 would anticipate that the frequency of circumstances in which a change to an accounting standard would be of sufficient urgency that it must be resolved without appropriate consideration and consultation with affected constituents as contemplated in the IASB's *Due Process Handbook* would be rare, if at all. However, we acknowledge the possibility that unforeseen circumstances may arise requiring emergency attention. In such exceptional cases, we believe that the independent functioning of the standard setter, with reasonable public consultation under the circumstances, would be critical components of any expedited due process. These elements are consistent with statements made by the IOSCO Technical Committee in its 21 October 2008 press release.

It is advisable that the standard setters establish and communicate the criteria that would be used to evaluate whether an individual matter is of sufficient gravity to justify 'fast track' procedures. Absent clear articulation of parameters for eligibility, the standard setter and their Trustees may find themselves confronted with an unduly large number of items suggested by their various constituents as warranting 'fast track' attention given their individual circumstances. Finally, it is worth considering whether the decision to give a matter expedited attention should be subjected to greater oversight, for example through approval of the board's Trustees.

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 organizations? If so, which issues and why, and which organizations?*

The most important organisations that should work together on accounting matters related to the financial crisis are the accounting standard setters. We are strongly supportive of the IASB's and FASB's efforts to arrive at common standards in response to such issues. In addition, the standard setters should work together to the greatest extent possible, and liaise closely with other interested parties, such as regulators, to best understand all facets of issues likely to have a material impact on the financial sector. Loan loss provisioning is an example of such an issue. Interaction with audit standard setters could also be valuable such as developing further guidance if necessary when addressing verifiability related issues, e.g., valuation of financial products for the auditability perspective.

On all significant projects, it is important that the IASB consider the arguments in favor and against, including the nature of the anticipated costs and benefits, through dialogue with the investors, auditors and representative preparers, before issuing documents for formal public comment.

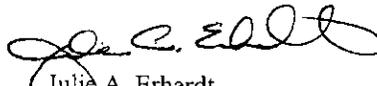
7. *Is there any other input that you'd like to convey to the FCAG?*

In addition to the points raised above, we would like to reiterate the need for standards and practices that provide for transparent disclosure. With respect to the financial crisis, fair value measurement and off-balance sheet arrangements are areas where disclosure is imperative.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at +1 202 551 5300.

Sincerely,



Julie A. Erhardt
Chair

IOSCO Standing Committee No. 1