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September 30, 2010

CLIFF #:229673
Director@fasb.org
280-30

Technical Director
File Reference No. 1810-100
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT, USA, 06856-5116

Dear Technical Director:

RE: FASB ED Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Thank you for the opportunity to comment on the FASB exposure draft "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities". The views expressed in this letter reflect the views of the Province of British Columbia. These views are based on a commitment to preparing financial statements that are understandable and meet the information and decision-making needs of the public and the Legislature acting on their behalf.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. Several of our entities are currently required to adopt IFRS in 2011, and the financial statements that these entities will prepare in 2011 are consolidated to the Province's Summary Financial Statements on a modified equity basis according to PSAB requirements. Since FSAB and IASB are working towards convergence of the accounting standards for financial instruments, the Province of British Columbia may be impacted by this Exposure draft. In addition, PSAB guidance may also be impacted in the future.

The Province of British Columbia has significant concerns with the proposed guidance to increase the use of fair value measurement and its potential impact on the financial reporting of governments. The adoption of the exposure draft's proposals, which requires entities to measure financial instruments at fair value on the statement of financial position, could cause financial reporting in the public sector to be less transparent, less understandable and less meaningful to stakeholders. The proposed changes would likely result in considerable unrealized fluctuations in the valuation of financial instruments that governments generally hold until their maturity.

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Ministry of Finance

Office of the
Comptroller General

Mailing Address:
PO Box 9413 Stn Prov Govt
Victoria BC V8W 9V1
www.gov.bc.ca/fin

Location Address:
2nd Floor
617 Government Street
Victoria BC

The immediate recognition of unrealized gains and losses resulting from recognizing the changes in fair value of financial instruments would cause artificial volatility in the government's bottom line and could lead to poor decision-making based on the impact to the surplus/deficit. Immediate recognition could also mislead the public in terms of the government's performance and the availability of funding when changes in the operating statement result from fair value disclosures on assets or liabilities that the government has no intention of selling. For example, in a year where substantial unrealized gains are recognized in the operating statement, it could be interpreted that the government has funding available for new programs when, in fact, it does not. The Province is concerned that the adoption of the proposed guidance will not provide meaningful information to users of government financial statements because it will not reflect the economic realities of the transactions.

The Province of British Columbia believes that the fair value measurement is not suitable for financial statement recognition for many diverse organizations, including public sector organizations. In British Columbia, the government does not engage in speculative trading activities of financial or physical assets to maximize profit. Financial derivatives are used by government entities to mitigate interest rate and currency risks associated with debt and investment portfolios. Given the limited use of derivatives within the public sector and the cost constraints of providing additional information that has limited use or relevance in assessing the governments' performance as stewards of public assets, the Province believes that derivatives should be measured at amortized cost in the statement of financial position and that fair values should be disclosed in the notes to the financial statements.

Responses to specific questions posed in the Exposure draft are attached. Should you have any comments or questions, please contact me at 250 387-6692 or by e-mail: Cheryl.Wenezenki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Province of British Columbia
Sincerely,

Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General
Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister
Ministry of Finance

Sabine Feulgen, A/Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Scope
Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

The Province of British Columbia supports a principles based, as opposed to a rules based body of accounting standards. The parameters for applicability of guidance should be based on the substance and intent of arrangements (for instance whether held for active trading or held until maturity). A myriad of technical exclusions (there are 40 listed in the Exposure draft), does not promote the exercise of professional judgment when circumstances arise outside of the specific rules. An exhaustive list of exclusions, as proposed, is at risk of continual amendment as ways to work around the scope are implemented by financial statement preparers.

It should be noted that fair value measurement is not suitable for many organizations including governments, not-for-profit entities, and any entities that primarily hold their financial instruments to maturity or their investment potential.

Question 2: The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?

The Province of British Columbia recommends principles based as opposed to rules based guidance. See our response to Question 1.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

The Province of British Columbia does not have deposit type and investment contracts of insurance but disagrees with the measurement of deposit-type and investment contracts of insurance being measured at fair value in the statement of financial position. The fair value of these financial instruments is more effectively disclosed in the notes to the financial statements.

The immediate recognition of unrealized gains and losses resulting from recognizing the changes in fair value of financial instruments would cause artificial volatility in the entity's bottom line and could lead to poor decision-making based on the impact to the surplus/deficit. Immediate recognition could also mislead the investor in terms of the entity's performance and the availability of funding when changes in the operating statement result from fair value disclosures on assets or liabilities that the entity has no intention of realizing. For example, in a year where substantial unrealized gains are recognized in the operating statement, it could be interpreted that the entity has funding available for distribution when, in fact, it does not.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

The Province of British Columbia disagrees with including the proposed change to the criteria for equity method of accounting within the financial instruments, derivatives and hedging guidance. Changes to Topic 323 on accounting for equity method investments and joint ventures, should be exposed for comment under that topic, to ensure complete and cohesive topical guidance.

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Questions for Users 5-7

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Initial Measurement

Questions for All Respondents

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

The Province of British Columbia does not agree with the initial measurement principles for financial instruments. Canadian governments do not engage in speculative trading activities to maximize profit. Financial derivatives are used by government entities to mitigate interest rate and currency risks associated with debt and investment portfolios. Also, the governments generally hold their financial instruments to maturity. The use of fair value measurements will result in considerable fluctuations in valuation that would not reflect the government's objectives or the obligations that must be discharged at maturity.

The Province of British Columbia has significant concerns with the proposals to adopt fair value measurement of derivatives and portfolio equity investments and any guidance that causes the elimination of current provisions which allow for accounting for synthetic instruments and the deferral and amortization of gains or losses incurred on derivative instruments held in qualified hedging arrangements. Comptroller Generals across Canada have consistently raised concerns about fair value reporting for governments and the fair value proposals were discussed as a topic of concern at a recent Canadian Finance Ministers' conference.

The Province of British Columbia disagrees with the proposal to adopt fair value as a measurement basis for all equity investments and derivatives on the grounds that it is inconsistent with the Canadian Public Sector Accounting Board's (PSAB) conceptual framework as it relates to valuation. PSAB PS1000.60 states:

> "Government financial statements are, however, prepared primarily using the historical cost basis of measurement whereby, transactions and events are recognized in financial statements as the amount of cash or cash equivalents paid or received, or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances."

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

As stated in Question 8, the Province of British Columbia does not agree with the fair value measurement of financial instruments. Changes in value should not be recognized unless there is a decline in value below cost that is other than temporary.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

The Province of British Columbia does not agree with the fair value measurement of financial instruments being held either to maturity or for their contracted investment returns. The more effective valuation methodology of financial instruments is amortized cost.

The immediate recognition of unrealized gains and losses resulting from recognizing the changes in fair value of financial instruments would cause artificial volatility in the government's bottom line and could lead to poor decision-making based on the impact to the surplus/deficit. Immediate recognition could also mislead the public in terms of the government's performance and the availability of funding when changes in the operating statement result from fair value disclosures on assets or liabilities that the government has no intention of selling. For example, in a year where substantial unrealized gains are recognized in the operating statement, it could be interpreted that the government has funding available for new programs when, in fact, it does not. The Province is concerned that the adoption of the proposed guidance will not provide meaningful information to users of government financial statements because it will not reflect the economic realities of the transactions.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

The Province of British Columbia does not agree with the recognition of changes in fair value of financial instruments. The Province does not engage in speculative trading activities of financial or physical assets to maximize profit. The province holds its financial assets and liabilities to maturity and therefore it is appropriate to defer and amortize transaction costs over the term of the instruments.

Question for Preparers and Auditors

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

The Province of British Columbia does not agree that financial instruments should be initially valued at an amount other than cost. In the Province transaction costs (commissions) are booked separately and amortized over the term of the related debt issue.

Subsequent Measurement

Questions for All Respondents

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

The Province of British of Columbia disagrees that the default measurement attribute for financial instruments should be fair value. The Province believes that the financial instruments should be recognized at the lower of amortized cost or fair value with disclosure of fair value information, where available, in the notes to the financial statements.

The Province also disagrees with reporting fair values parenthetically on the Statement of Financial Position. Reporting fair value information, even parenthetically, on the Statement of Financial Position may cause stakeholders to place unwarranted reliance on those values, even when they do not represent recoverable or payable amounts either because there is no liquid market or because the entity has no intention of selling its financial instruments. Any effort to provide fair value information should be done as disclosure in the notes to the financial statements, not on the face of the statements.

In the Province of British Columbia, financial instruments are held to maturity for collection or payment of contractual cash flows and are measured at amortized cost. Re-measuring financial instruments at fair value in the financial statements is only appropriate in the case of other than a temporary decline in value. The amortized cost methodology fairly represents the contractual value of the instruments and provides meaningful information to users of the entity's statements.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

The Province of British Columbia disagrees with the guidance as proposed. The Province believes that interest income or expense, credit impairments which are other than temporary, and realized gains and losses be recognized in net income for all financial instruments. Reversals of write-downs should not be made. The Province believes that interest should be accrued and any impairment in value is recognized in income. In the Province of British Columbia, interest is accrued on the basis of the contractual rate specified in the loan documentation which more often than not does not reflect the market rate at issue (book value) or the current market yield (market value). Interest is accrued as it is earned with no provision for discounting accrued interest (time value) between payments. The Province recommends that fair value information be disclosed in the notes to the financial statements if available.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

The Province of British Columbia does not believe that the subsequent measurement principles for financial assets and financial liabilities should be the same. The Province believes that financial assets should be subsequently re-measured at the lower of amortized costs or market. Any impairment, other than temporary, should be treated as loss on investment that reduces the value of investment and net income. On the other hand, financial liabilities should be recorded at the market value when issued (cost) with any discounts or premiums amortized over the term of the liability. The amortized cost (carrying amount) is reduced only when they are paid or deemed paid through forgiveness of debt, or when, in the case of bankruptcy, debt is settled and any gains or losses recorded.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

The Province believes that financial instruments should be measured at the lower of amortized cost or fair value. The Province of British Columbia does not agree that reclassifications should be prohibited for financial assets. However; to simplify accounting requirements for financial assets, reclassifications should be limited to either trade or hold for collection of contractual cash flows. Prescribing the circumstances of whether it is permitted or prohibited to reclassify financial assets after initial recognition is a regulatory issue that should not be made a scope of this proposed guidance.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

The proposed standard does not provide a clear definition for "core deposit liabilities". Based on our understanding, core deposits only apply to financial institutions, such as banks, and therefore; the Province of British Columbia does not have any comments on the "core deposit liabilities" standard.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

The Province of British Columbia disagrees that a financial liability should only be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income.

The Province believes that all financial liabilities should be measured at amortized cost. The fair value measurement of financial liability would create artificial net income volatility and would create a misrepresentation of the liabilities on the Statement of Financial Position because the amount shown on the Statement of Financial Position would not be the amount actually payable by the entity.

Measurement of a financial liability at fair value would also create a measurement attribute mismatch to the financial liability that is contractually linked to an asset not measured at fair value. Even though the proposed standard allows an exemption for this asset-liability mismatch situation, the Province believes that this exemption will increase complexity for measuring and understanding the financial instruments.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

The Province of British Columbia supports a principles based, as opposed to a rules based body of accounting standards. The parameters for applicability of guidance should be based on the substance and intent of arrangements and not investment in specific organizations. The proposed guidance does not promote the exercise of professional judgment when circumstances arise outside of the specific rules.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

Since the Province of British Columbia does not pay tax, this proposed standard does not apply and therefore; the Province has no comment on "valuation allowance on a deferred tax asset" standard.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in

other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

The province does not issue convertible debt and therefore does not provide any comments on this question.

Questions for Users 22-27

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Questions for Preparers and Auditors

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

The Province of British Columbia does not believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational. The Province believes that financial instruments should be measured at amortized cost. Changes in fair value shall be recognized in net income when realized. The fair value measurement would create artificial volatility in the Statement of Comprehensive Income and would create a misrepresentation on the Statement of Financial Position.

According to Canadian Public Sector Accounting Board's (PSAB) PS 1000.55, one of the recognition criteria is that "*the item has an appropriate basis of measurement*". According to Canadian PSAB's PS 1000.60, government financial statements are *"prepared primarily using the historical cost basis of measurement"*.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

The Province of British Columbia does not believe that measuring financial liability at fair value is operational. The Province believes that <u>all</u> financial liabilities should be measured at amortized or historical costs.

Measuring financial liabilities at fair value would create a misrepresentation of the liabilities on the Statement of Financial Position because the amount shown on the Statement of Financial Position would not be the amount actually payable. It would also create a measurement attribute mismatch to the financial liability that is contractually linked to an asset not measured at fair value. Changes in the fair value do not change the terms of the existing debt. The interest rate and the entity's payable remain the same. In addition, the immediate recognition of unrealized gains and losses resulting from recognizing the changes in fair value of financial liabilities would cause artificial volatility in the government's bottom line and could lead to poor decision-making based on the impact to the surplus/deficit. It could also mislead the public in terms of the organizations' performance and the availability of funding when changes in the operating statement result from fair value disclosures on liabilities that the government has no intention of selling. For example, in a year where substantial unrealized gains are recognized in the operating statement, it could be interpreted that the government has funding available for new programs when, in fact, it does not.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

The Province of British Columbia does not believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost.

The Province believes that <u>all</u> financial liabilities should be measured at amortized cost. The fair value measurement of financial liability would create artificial volatility and would create a misrepresentation of the liabilities on the Statement of Financial Position because the amount shown on the Statement of Financial Position would not be the amount actually payable.

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Measurement of a financial liability at fair value would also create a measurement attribute mismatch to the financial liability that is contractually linked to an asset not measured at fair value. Even though the proposed standard allows an exemption for this asset-liability mismatch situation, the Province believes that this exemption will increase complexity for measuring and understanding the financial instruments.

Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits. Do you believe that this re-measurement approach is operational? Do you believe that the re-measurement approach is clearly defined? If not, what, if any, additional guidance is needed?

The proposed standard does not provide a clear definition for "core deposit liabilities". Based on our understanding, core deposits only apply to financial institutions, such as banks, and therefore; the Province of British Columbia does not have any comments on the "core deposit liabilities" standard.

Presentation

Questions for All Respondents

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

The Province of British Columbia disagrees with the fair value measurement of an entity's own liabilities; and disagrees with recognizing changes in an entity's credit standing in other comprehensive income.

The Province of British Columbia does not support the revaluation of liabilities to incorporate changes in the entity's credit standing. The credit risk of the entity is reflected in the terms negotiated with the lender, including interest rate, security and payment terms. A change in the fair value does not change the terms of the existing debt; the interest rate and the entity's obligation remain the same. Both proposed methods require subjective judgments and increase the risk of manipulations. The Province issues debt obligations that are intended to be held to maturity. Any additional departures from the historical cost basis of measuring liabilities only adds complexity to financial reporting and contributes to the misrepresentation of amounts actually owed by the province.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

The Province of British Columbia does not support the revaluation of liabilities to incorporate changes in the entity's credit standing. The credit risk of the entity is reflected in the terms negotiated with the lender, including interest rate, security and payment terms. A change in the fair value does not change the terms of the existing debt; the interest rate and the entity's obligation remain the same. Both proposed methods require subjective judgements and increase the risk of manipulations and misrepresentation of amounts owed by the entity.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

The Province of British Columbia disagrees with determining the changes in fair value of a financial liability attributable to a change in an entity's credit standing and believes that financial liabilities should be recognized at amortized cost.

Questions for Users

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Credit Impairment

Questions for All Respondents

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

The Province of British Columbia believes that the objective of the credit impairment model in this proposed Exposure draft is clear; however, as explained in Question 38, the Province disagrees with the credit impairment model presented in this Exposure Draft as it may apply to sovereign issuers of debt instruments.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s).

The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss.

Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

The Province of British Columbia agrees that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Exposure draft. The Province believes that all financial assets that are recognized at amortized cost should follow the "incurred credit loss model" and not the expected loss model. The use of the expected loss model for the recognition of impairment would result in financial assets recognized at amortized cost effectively being recorded at their fair value, except transaction costs that are directly attributable to the acquisition of the financial asset. This would unnecessarily

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increase the complexity of preparing financial statements and provide little benefit to financial statement users. In addition, the introduction of the expected loss model would introduce artificial volatility to the Statement of Operations during the time that amortized cost financial assets are held by the entity with the volatility only being eliminated with the sale or other disposal of the financial asset. Stakeholders would be better informed of the change in credit value through the notes to the financial statements.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

The Province of British Columbia agrees that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate. The Province believes that all financial assets that are recognized at amortized cost should follow the "incurred credit loss model" and not the expected loss model.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

The Province of British Columbia endorses principles based guidance as opposed to a prescribed rules based approach to guidance.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

The Province of British Columbia does not agree with the credit impairment method proposed in this Exposure draft. If the entity expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the Province would recognize no immediate gain in net income but recognize income as it is realized/earned.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

The Province of British Columbia does not agree with reassessing the financial asset together with other financial assets that have similar characteristics for indications of a credit impairment after it has already been evaluated for impairment on an individual basis with no indicators of being individually impaired. This is like trying to find a problem when there is no problem and a duplication of effort is made in re-evaluation. A financial asset should be evaluated individually or on a pooled basis but not both.

Questions for Users 43-45

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Questions for Preparers and Auditors

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and

existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

The Province of British Columbia believes in the incurred credit loss model. Both the incurred credit loss model and the expected credit loss model methods are operational but the expected credit loss model would incur additional costs to determine the amount of the expected credit losses.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

The determination of historical loss rate is consistent with the Province of British Columbia's current practices for amounts receivable.

Interest Income

Questions for All Respondents

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

The province believes that financial assets should be recognized at amortized cost. Interest income should be recognized when it is earned. A credit impairment should not affect the amortized cost of a financial asset unless the financial asset becomes permanently impaired and thus the financial asset would be written down to its realizable value.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

The province believes that interest income should be recognized only when it is earned and at the amounts according to the contractual terms of the financial asset.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

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The province believes that all financial assets should be recognized at amortized cost: Therefore interest income recognition guidance should be the same for all financial assets because they are all recognized at amortized.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

The Province of British Columbia does not support the proposals in this Exposure Draft.

Questions for Users 52-55

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Hedge Accounting

Questions for All Respondents

Question 56: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

The province does not support initiatives that require the recognition of changes in the fair market value of derivative instruments held as components of a qualified hedging arrangement. The province enters into matched hedging arrangements to eliminate the volatility of cash flows that may result from changes in interest and foreign currency exchange rates on foreign denomimated liabilities. The interim valuation of components of matched hedging arrangements that are held to maturity would induce volatility in the financial results of the province and would not reflect the contractual amounts the province is committed to pay as interest or at maturity. Interim valuations could also mislead users of the public accounts by suggesting that interim gains are available for program spending when in fact they are not.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

The province does not believe that hedged transactions should be measured at fair value. The province believes that financial instruments should be measured at amortized cost, including hedged transactions, with fair values disclosed in the notes to the financial statements.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

The province does not believe that hedged transactions should be measured at fair value. The province believes that financial instruments should be measured at amortized cost, including hedged transactions, with fair values disclosed in the notes to the financial statements.

Questions for Users 59-60

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Questions for Preparers and Auditors

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

Yes, the additional cost and minimal benefit should be considered in requiring effectiveness testing on matched hedging arrangements in which the critical terms of the hedging instrument and the hedged item are equal and off-setting. In such circumstances there is little or no benefit to effectiveness testing because the critical terms of the contractual obligations ensure effectiveness.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

Yes, the additional cost and minimal benefit should be considered in requiring effectiveness testing on matched hedging arrangements in which the critical terms of the hedging instrument and the hedged item are equal and off-setting. In such circumstances there is little or no benefit to effectiveness testing because the critical terms of the contractual obligations ensure effectiveness.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

In almost all instances, the province's use of derivatives is limited to components of matched hedging arrangements that off-set variations in debt service costs which would otherwise result from changes in interest rates or foreign exchange rates. The province uses derivatives to reduce operational risk by achieving cost certainty in its debt service payments and maturity amounts. The limited use of derivatives in matched hedging arrangements is the basis for the province's support of existing guidelines set by the Canadian Public Sector Accounting Standards Board (PSAB) which allow for the analysis of critical terms in defining hedging relationships (the short cut method) and accounting for synthetic investments. In the case of matched hedging arrangements, reporting the combined economic impact of the hedged item and the hedging derivative (accounting for synthetic instruments) provides financial statement users with accurate and consistent information on the economic commitments of the province. In the vast majority of instances, these matched hedging arrangements are held to maturity. As a result the more extensive field testing is required at this time to determine whether there would be any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

In almost all instances, the province's use of derivatives is limited to components of matched hedging arrangements that off-set variations in debt service costs which would otherwise result from changes in interest rates or foreign exchange rates. The province uses derivatives to reduce operational risk by achieving cost certainty in its debt service payments and maturity amounts. The limited use of derivatives in matched hedging arrangements is the basis for the province's support of existing guidelines set by the Canadian Public Sector Accounting Standards Board (PSAB) which allow for the analysis of critical terms in defining hedging relationships (the short cut method) and accounting for synthetic investments. In the case of matched hedging arrangements, reporting the combined economic impact of the hedged item and the hedging derivative (accounting for synthetic instruments) provides financial statement users with accurate and consistent information on the economic commitments of the province. In the vast majority of instances, these matched hedging arrangements are held to maturity. As a result more extensive field testing is required at this time to determine whether there would be any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument.

Disclosures

Question for All Respondents

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

The Province of British Columbia does not support the proposals, including the disclosure requirements in this Exposure draft. The province believes that financial instruments should be recognized at the lower of amortized cost or fair value and that fair values should be disclosed in the notes to the financial statements.

Questions for Users 66-67

The Province of British Columbia has provided comments on our position on this topic in the previous questions, and has no further comment on these questions.

Effective Date and Transition

Questions for All Respondents

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

The Province of British Columbia does not support the proposals in this Exposure draft and therefore does not agree with the proposed implementation or transition provisions.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for non-public entities with less than $1 billion in total consolidated assets? If not, why?

The Province of British Columbia does not support the proposals in this Exposure draft and therefore does not agree with the proposed implementation or transition provisions.

Questions for Preparers and Auditors

Question 70: How much time do you believe is needed to implement the proposed guidance?

The Province of British Columbia does not support the proposals in this Exposure Draft and therefore does not agree with the proposed implementation or transition provisions.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

The Province of British Columbia does not support the proposals in this Exposure Draft and therefore does not agree with the proposed implementation or transition provisions.