



LETTER OF COMMENT NO. 49



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Mr Adam Van Eperen  
FASB

By email to [ajvanepere@fasb.org](mailto:ajvanepere@fasb.org)

2 April 2009

Dear Mr Eperen

**Financial Crisis Advisory Group – Input from Constituents**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA is a global professional body representing accountants in business. CIMA represents over 171,000 members and students in 165 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

We support the IASB and the FASB decision to appoint a Financial Crisis Advisory Group to assist their work in this area. We believe that the Group will facilitate the wide consultation needed to ensure a comprehensive and effective response to the current economic conditions by the two standard-setters.

The current financial crisis is principally an economic issue not an accounting one. These economic issues have been the consequence of inappropriate selling and overly complex financial instruments in a lax regulatory environment. The crisis has arisen from a variety of economic factors, not fair value reporting, and the regulatory capital requirements have proved ineffective in preventing such problems arising. Transparency of financial information – no matter how painful the economic reality – will be a key ingredient in helping to restore economic confidence.

Substantive narrative reporting for example explaining the basis for fair value accounting is very important. The role of the preparer to report on the business of the entity should not be underestimated. It is important that the impact of fair value measurements can be clearly identified in the financial statements and sufficient contextual information provided in the associated management commentary.

We attach responses to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

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## **Responses to the specific consultation questions :**

***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.***

We believe that general purpose financial reporting has helped to identify issues relating to the carrying value of financial instruments. We recognise that some commentators have criticised the possible pro-cyclical effect of mark-to-market accounting and this is an area that warrants due consideration. However, we note that Lord Turner, in his recent report into the banking crisis, provides support to the role of mark-to-market accounting - *"And the evidence of the crisis suggests that the institutions which most rigorously applied mark-to-market approaches, identifying rapidly the impact of falling liquidity and falling prices, performed best since they exited problem asset areas faster and at lower eventual cost."*

We believe that continued promotion of a high degree of transparency in financial reporting is essential to restore confidence in reporting -- a key ingredient in helping to restore economic confidence.

***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.***

CIMA is supportive of moves by prudential regulators to require 'through-the-cycle' provisions to dampen the affects of pro-cyclicality but we believe that these approaches should not be incorporated into the statement of comprehensive income. To do so would risk reducing further the much needed trust and confidence in financial reporting.

The aim of such measures would be to reduce the amount of capital that an institution is able to distribute to members through dividends or share buy-backs. Whether this is achieved in the financial statements as an appropriation of equity (approach 3 above) or outside of the financial statements as a prudential limit disclosed by way of footnote (approach 4 above) we are open to persuasion.

***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 have heard some anecdotal observations supporting this view but have no hard evidence ourselves.

***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?***

To the extent that assets should not be held at higher than net realizable value we believe that financial instruments should always be held at fair value. How this fair value is calculated should be flexible. Where deep and liquid markets exist in a particular financial instrument then mark-to-market should be the basis for calculating fair value.

Where deep and liquid markets do not exist we do not support simply falling back to historic cost. Alternative valuation methods should be used such as discounted future expected cash flows based on management intent.

Substantive narrative reporting explaining the basis for fair value measurement is very important. The role of the preparer to report on the business of the entity should not be underestimated. It is important that the impact of fair value measurements can be clearly identified in the financial statements and sufficient contextual information provided in the associated management commentary.

***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?***

Accounting standard-setters should always allow sufficient time for due consideration of proposed changes so as to minimise the risk of unintended consequences. What is 'sufficient time' in this context will need to be determined on a case-by-case basis taking into account the nature and complexity of the proposed change.

***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?***

We are not aware of issues that the IASB or the FASB are addressing that would be best dealt with by other organisations.

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

We do not have anything further to add at this stage.