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30 September 2010

RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS IRELAND

PROPOSED ACCOUNTING STANDARDS UPDATE “ACCOUNTING FOR FINANCIAL INSTRUMENTS AND REVISIONS TO THE ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES” (FILE REF. 1810-100)

Dear Sir/Madam

Chartered Accountants Ireland is the largest accountancy body in Ireland, representing in excess of 19,000 professional accountants in Ireland, Northern Ireland, the UK and internationally.

The Accounting Committee (AC) of Chartered Accountants Ireland welcomes the opportunity to comment on the above proposed accounting standards update. The membership of AC is drawn from a variety of sources in Ireland with an interest in technical accounting pronouncements including audit and accounting firms, accountants in business, including banking, users of financial statements and academia.

Since 2009, Irish legislation has recognised US GAAP as an appropriate accounting framework under which certain Irish companies may prepare their financial statements. Consequently, AC has an interest in the Board's proposals on accounting for financial instruments.

AC unequivocally supports the current efforts of the FASB and IASB to arrive at one set of high quality globally recognised accounting standards and considers that having standards that meet these criteria would greatly facilitate the effective operation of the global markets. For this reason, it is unfortunate that the proposals issued by the FASB and IASB differ in so many of the specifics in relation to financial instrument accounting.

The recent financial crisis has impacted on financial institutions throughout the world. Never in recent times has it been more evident that issues arising in one jurisdiction impact significantly on similar institutions in another. AC considers that this is particularly so in the financial services sector and has been evidenced in the recent banking crisis. For this reason, AC



considers that a vital cornerstone of a single set of high quality globally accepted accounting standards is to have a single agreed methodology of accounting for all aspects of financial instruments. AC considers that a single agreed approach to accounting for financial instruments is likely to do more to further the objective of a single set of high quality accounting standards than agreement on perhaps any other accounting topic. AC also considers that accounting for financial instruments is integral to so many entities, and most particularly financial institutions, that it is highly desirable there is a level playing field for all entities that compete for capital in the international markets. AC strongly urges the FASB and IASB to consider jointly their various proposals and to arrive at an agreed position which can be universally accepted.

AC considers that neither Board should finalise their current proposals until they have arrived at an acceptable level of agreement between the Boards. To the extent that additional time is needed to arrive at this compromise, AC considers that this would be time well spent.

Rather than comment on the individual questions, AC has confined its response to certain high level comments that it considers should inform future discussions of the Boards. AC is conscious that the IASB has finalised proposals regarding the classification and measurement of financial assets. These proposals are different to those currently proposed in the Board's proposals. AC, in commenting on the IASB's proposals, considered that the weighting given to the importance of the entity's business model and the cash flows of the instruments were appropriate in the finalised IFRS 9. AC questions the usefulness of measuring at fair value on a continuing basis those assets that meet the strict criteria of IFRS 9 for measurement at amortised cost, even if the fair value movements are deferred in OCI. AC considers that where the business model is to collect the contractual cash flows, amortised cost may be a more appropriate measurement on the face of the statement of financial position. Equally, AC considers that for most financial liabilities (unless held for trading or qualifying for a fair value option based on an accounting mismatch) amortised cost is the appropriate ongoing measurement attribute on the face of the statement of financial position. AC does not consider that a standard with a default requirement to reflect the impact of own credit in the measurement of financial liabilities is appropriate or provides useful information when the entity expects to settle the contractual cash flows of the liability.

AC notes that, other than IFRS 9, the remaining proposals of IASB on accounting for financial instruments are still under discussion and have not been finalised. Consequently, AC considers it imperative that the Boards use this opportunity to come together to reach a consensus on accounting for financial instruments and to issue a converged standard.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully,

Mark Kenny

Secretary to the Accounting Committee

