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September 30, 2010

Submitted electronically to director@fasb.org

Technical Director,
Financial Accounting Standards Board,
401 Merritt 7, PO Box 5116,
Norwalk, CT 06856-5116

Dear Sirs

Re: Exposure Draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities, File Reference No. 1810-100

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the Financial Accounting Standards Board's June 2010 Exposure Draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

The AcSB is not responding to the detailed questions posed in the Exposure Draft. However, this letter includes comments on classification and measurement, the measurement of deposit liabilities, recognition of impairment, and hedge accounting.

Single global standard for financial instruments

The AcSB strongly disagrees with the FASB and the International Accounting Standards Board issuing standards on financial instruments that are not identical. We have previously expressed similar concerns to the IASB and intend to reiterate them. Both Boards re-opened their financial instrument standards with the objectives of improving the standards, reducing complexity and arriving at the same requirements. Although we think both Boards have achieved some modest improvements in quality (albeit not in the same areas), we have not identified significant reductions in complexity. Consequently, without agreement on a common standard, the cost of imposing new requirements on the global financial reporting community is not worth the relatively insignificant benefits. Members of the AcSB's User Advisory Council also think that the

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Boards should eliminate differences in accounting standards to create a level playing field for all market participants. We agree that failure to do so will simply lead to on-going petitions to reconsider specific requirements of both standards with the resultant pressure towards lowest common denominator accounting.

We understand that after the Boards have considered the comments on their respective proposals, they intend to redeliberate the issues together in an attempt to arrive at common conclusions. Failing this, it appears that the objective of developing converged requirements will be modified to “foster[ing] international comparability of financial information.” The proposals seem to be trying to achieve this objective by developing presentation and disclosure requirements that will permit skilled, interested, diligent financial statement users to reconcile between the reports of entities using IFRS and US GAAP. This is not an appropriate response. By adopting it, the Boards will place on investors and reporting entities worldwide the burden of their failure to agree.

We are very concerned that the apparent similarities between IFRS 9 and the FASB ED proposals will be confusing to users. For example, IFRS 9 and the FASB ED proposals permit some instruments to be carried at amortized cost rather than fair value. However, the criteria for these classification decisions are different. Without agreement on the classification criteria, presentation and disclosure solutions to differing default measurements do not foster comparability and may in fact be misleading.

Classification and measurement

Members of our User Advisory Council have differing views on the extent to which financial instruments should be measured at fair value. Although some support full fair value measurement, many of them think financial instruments managed on the basis of their contractual cash flows should be measured at amortized cost for balance sheet and income statement purposes. Amortized cost measurement facilitates assessment of management quality, long-term performance trends and capital adequacy.

Users we consulted think that the fair values of financial instruments measured at amortized cost should be disclosed together with information about the judgements used in determining fair value and estimates of the sensitivity of the fair value measurements. These disclosures help them assess the riskiness of the underlying businesses. Their views are consistent with the findings of a recent user survey conducted by a major public accounting firm.

The AcSB thinks that the classification and measurement requirements in IFRS 9 will provide better information for financial statement users than the proposals in this Exposure Draft. Users have indicated that IFRS 9 would provide the necessary delineation between financial instruments that are held for trading and those held for longer term cash flows. We are not convinced that measuring most financial instruments at fair value would result in an

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improvement in financial reporting regardless of whether gains and losses are reported in net income or other comprehensive income.

Deposit liabilities

The AcSB agrees with the users it consulted that most financial liabilities, including deposit liabilities of financial institutions, should be measured at amortized cost. We disagree with the proposed approach to measuring core deposit liabilities. Although we recognize that it is a current measure attempting to reduce the accounting mismatch between this important source of funding and the fair value of the assets it supports, we do not agree with the incorporation of the value of internally generated intangible assets into the measurement of a financial liability. Amortized cost measurement of liabilities also preserves reporting of net interest margins, a key metric for users.

Impairment

The AcSB agrees with both the FASB and IASB that impairment of financial assets needs to be recognized sooner than currently permissible under either US GAAP or IFRS. The AcSB thinks that removing probability and evidence thresholds will improve the timeliness of recognizing credit losses without increasing complexity for preparers. The AcSB also thinks that impairment should not be incorporated into the determination of the effective interest rate but that interest income should be accrued on the amortized cost of a financial asset net of any impairment.

Hedge accounting

The AcSB thinks that the changes proposed for hedge accounting would be a significant improvement over the requirements of current standards. We agree that the qualifying criteria for hedge accounting should, at a minimum, be relaxed. However, we question the need for any qualifying criteria because all ineffectiveness would be reported in net income in the proposed model. Users have told us that financial reporting could be improved by permitting better alignment of economically offsetting positions even though the offset may be only partial.

Conclusion

The changes contemplated by this proposal are extensive, as are the changes, both finalized and proposed, by the IASB. Until the Boards agree on the most decision-useful accounting for financial instruments, there will be further changes to achieve a single global standard. The AcSB thinks that frequent changes in accounting standards on the same topic are costly for both financial statement preparers and users.

*AcSB response to Financial Instruments Exposure Draft
File Reference 1810-100*

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Given our fundamental disagreement with the Boards issuing differing proposals in separate Exposure Drafts, the AcSB does not think any purpose would be served by responding to the detailed Questions for Respondents.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me, Peter Martin, Director, Accounting Standards (+1 416 204-3276 or email peter.martin@cica.ca) or Kate Ward, Principal, Accounting Standards (+1 416 204-3437 or email kate.ward@cica.ca).

On behalf of the Board

A handwritten signature in black ink that reads "Patricia O'Malley". The signature is written in a cursive, flowing style.

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