



30 September 2010

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
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Dear Sir

**Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities**

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £3.4 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that in 2009, IMA members managed holdings amounting to 40% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members have an interest in financial reporting and the standards that govern the preparation of accounts as major investors in companies whose securities are traded on regulated markets and the information disclosed to them as users.

We appreciate the political pressure on the FASB and IASB in relation to the accounting for financial instruments but are concerned that in the ED the FASB is proposing a different approach to the IASB and it is difficult to see how the two positions could be reconciled. Moreover, we do not agree with the ED's proposals in that we support a mixed attribute model that differentiates between financial instruments at amortised cost and fair value based on the characteristics of the instruments and the entity's business model. The new IASB standard, IFRS 9 'Financial Instruments', provides a better basis for convergence than the multiple measurement bases in the ED which do not aid comparability or reduce complexity. We set out below our other observations.

- The ED does not permit reclassification even if there is a change in the entity's business model. We believe reclassification should be required if there is a change in the business model, with appropriate disclosure, and support the approach in IFRS 9.

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- Presenting both amortised cost and fair value as proposed would result in over-detailed primary financial statements and a lack of clarity as to the economics of transactions and the underlying business model. Where financial instruments are carried at amortised cost it should be sufficient for fair values to be set out in the notes (as is required by IFRS7 '*Financial Instruments: Disclosure*').
- For long term financial liabilities that fund the business, amortised cost should be used as recording fair value movements in the income statement relating to changes in an entity's own credit obfuscates results and is misleading. It is only really appropriate to measure financial liabilities at fair value where they are held for trading and/or where they would otherwise result in an accounting mismatch.
- Similarly we disagree with the approach to core deposits in that these should be measured at the amount payable to the depositor on demand and as such, at amortised cost. If the approach to core deposits is driven by the desire to have symmetry between the measurement of financial assets and liabilities, it would mean that the accounting fails to reflect how an entity manages its business.
- For impairment, the proposals are that expected losses are recognised immediately based on current economic conditions and preclude possible future economic conditions being addressed. This is akin to the incurred loss model and we believe the impairment model should use more forward-looking information.
- We disagree that dedesignation of the hedging relationship should be prevented unless the hedge is no longer expected to be reasonably effective or the hedging instrument is sold, terminated or exercised. Entities should be permitted to adjust hedges in accordance with their risk management strategy.
- We disagree with the proposed changes to the conditions for equity accounting such that the investor has to have significant influence over the investee *and* the investee's operations have to be considered related to those of the investor's consolidated operations. If equity accounting is not applied, the investment is recorded at fair value through profit or loss. We do not believe that investees necessarily need to have related operations - conglomerates can have quite diverse operations. Significant influence would seem to be sufficient.

I trust the comments above are self-explanatory but please do contact me if you would like any clarification or would like to discuss any issues further.

Yours faithfully



Liz Murrall  
Director, Corporate Governance and Reporting

Cc: Sir David Tweedie, IASB