Please note that the comments expressed herein are solely my personal views.

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Chris Barnard
Germany

23 April 2013

- File Reference No. 2013-220
- Financial Instruments – Overall (Subtopic 825-10)

Dear Sir,

Thank you for giving us the opportunity to comment on your Exposure Draft: Financial Instruments – Overall (Subtopic 825-10); Recognition and Measurement of Financial Assets and Financial Liabilities. I will make some general comments now. For the record, I also enclose the comment letter that I submitted to the IASB in March 2013 on their Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9. This supports the IASB’s approach, and is relevant, given your joint deliberations with the IASB on this topic.

I support your approach for classifying and measuring financial assets that involves considering whether the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics criterion), and then considering the business model in which the asset is managed along with other financial assets. This will allow reporting entities, including most banks and insurance companies, to better reflect a business model whose objective is both to collect contractual cash flows and to sell. This is practicable and will provide more meaningful information to users of financial statements. It also improves consistency between US GAAP and IFRS. However, there are considerable differences in guidance and application here, and additional differences in other important parts of the recognition, classification and measurement models. This greatly increases complexity and reduces comparability of financial statements. I would recommend that the FASB and IASB should work even more closely together in order to develop a set of unified global accounting standards in line with their commitments.
Please note that the comments expressed herein are solely my personal views.

Yours faithfully

C.R.B.

Chris Barnard
Please note that the comments expressed herein are solely my personal views

APPENDIX

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Chris Barnard
Germany

26 March 2013

- Your Ref: Comment letter on Exposure Draft ED/2012/4
- Classification and Measurement: Limited Amendments to IFRS 9

Dear Sir.

Thank you for giving us the opportunity to comment on your exposure draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9. The IASB is proposing these amendments in order to: address specific application questions raised by interested parties; better align the classification and measurement model for financial assets with the IASB's Insurance Contracts project; and reduce key differences with the FASB's tentative classification and measurement model for financial assets.

I support your current proposed amendments to IFRS 9, which will provide more meaningful information to users of financial statements (users), and will also improve internal consistency and comparability between IFRSs and US GAAP. I strongly support the introduction of a third measurement category of fair value through other comprehensive income (FVOCI). This will allow some reporting entities, including most banks and insurance companies, to better reflect a business model whose objective is both to collect contractual cash flows and to sell. It will also better align with the accounting for insurance liabilities. Finally, it will align the IASB's classification and measurement model with the FASB's tentative model.¹

I support the principles-based approach that you have adopted here. I believe that this is practicable as long as the judgements made for classification and measurement are reasonable, rational, consistent and are not arbitrary.

¹ Although there may be differences in application.
Please note that the comments expressed herein are solely my personal views

Answers to specific questions raised by the IASB

Contractual cash flow characteristics assessment

Question 1
Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

I agree with this proposal. It is reasonable and practicable. If a financial asset’s cash flows are replicated by the benchmark cash flows, then by definition, the financial asset contains cash flows that are solely payments of principal and interest (SPPI). I accept that judgement will be required in order to make the assessment, but I support this as long as such judgements are reasonable, rational, consistent and are not arbitrary.

Question 2
Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

Yes, I believe that the ED proposes sufficient, operational application guidance on assessing a modified economic relationship. The guidance is reasonably clear and complete. However, I accept that reporting entities will need to make judgments when carrying out the assessment, and that not all judgement-related issues can be adequately captured by detailed guidance. I support this as long as such judgements are reasonable, rational, consistent and are not arbitrary.

Question 3
Do you believe that this proposed amendment to IFRS 9 will achieve the IASB’s objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

I believe that the proposed amendment achieves the IASB’s objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features. I also agree that it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest.
Please note that the comments expressed herein are solely my personal views.

Business model assessment

Question 4
Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

a) interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and
b) all other gains and losses are recognised in OCI?
c) If not, why? What do you propose instead and why?

I strongly support this proposal. The classification and measurement model for financial assets must be sufficient and complete enough to reflect common business models, and provide meaningful information to users. The introduction of a third measurement category of fair value through other comprehensive income (FVOCI) will allow some reporting entities, including most banks and insurance companies, to better reflect a business model whose objective is both to collect contractual cash flows and to sell, and will therefore provide more meaningful information to users. For completeness, I agree that this classification should be required for business models in which assets are managed both in order to collect contractual cash flows and for sale.

Question 5
Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

Yes, I believe that the ED proposes sufficient, operational application guidance on how to distinguish between the three business models. The guidance is reasonably clear and complete. However, I accept that reporting entities will need to make judgments when carrying out the assessment, and that not all judgement-related issues can be adequately captured by detailed guidance. I support this as long as such judgements are reasonable, rational, consistent and are not arbitrary.

Question 6
Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

Yes, I strongly agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI. This will improve internal consistency and help to reduce accounting mismatches.
Please note that the comments expressed herein are solely my personal views

Early application

Question 7
Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (ie including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

I agree with the proposed early application provisions.

Presentation of ‘own credit’ gains or losses on financial liabilities

Question 8
Do you agree that entities should be permitted to choose to early apply only the ‘own credit’ provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

Yes, I agree that entities should be permitted to choose to early apply only the ‘own credit’ provisions in IFRS 9 once the completed version of IFRS 9 is issued. This is a good decision that will provide more meaningful information to users by removing the artificial and counterintuitive effect on results caused by changes in a reporting entity’s own credit risk.

First-time adoption

Question 9
Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

No.

Yours faithfully

C.R. Barnard

Chris Barnard