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Comments regarding IASB's Exposure Draft on IFRS 7 Investments in Debt Instruments

Dear Mr. Enevoldsen,

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft comment letter on IASB Exposure Draft on IFRS 7 Investments in Debt Instruments.

We thank you for this opportunity to comment on your draft letter and we are therefore pleased to provide you with the following comments:

1. In general, CESR is supportive of the main parts of the comment letter prepared by EFRAG on this issue.
2. However, we have some comments to various issues. The main issue raised by EFRAG in its comment letter is whether IASB should continue with this exposure draft as a matter of urgency. It is the overall conclusion of EFRAG according to the draft comment letter that none of the suggested disclosures are a matter of such urgency that a short comment period is justified and therefore that further analysis on these complex and comprehensive issues are needed. CESR would in this connection like to highlight that especially the European Commission¹ on request from a number of parties has stated that *"The approach for available for sale debt securities should be changed. Impairment losses should be determined similarly to the way impairment is recognized for held to maturity instruments and loans and receivables; the balance of the fair value decline in excess of incurred credit losses would be maintained in equity. Thus, only credit losses would result in impairment losses in the income statement"*. CESR is of the view that the suggested disclosures regarding impairment on available for sale items could provide a short term solution to the request of the European Commission to urgently change the accounting requirements for available for sale debt instruments. CESR is of the view that this information would be useful to the users of the financial statements. CESR would therefore recommend that IASB moves forward with the suggested disclosures on this particular issue as a matter of urgency and limit the scope of the exposure draft to impaired available for sale items. CESR would therefore strongly recommend that the matter of urgency for the suggested disclosures for available for sale items is stated in the cover letter of the comment letter.

¹ Letter from the European Commission to IASB dated 27 October 2008
http://ec.europa.eu/internal_market/accounting/docs/letter-iasb-ias39_en.pdf



3. For the disclosures suggested by IASB in the exposure draft that deals with other categories than the category of Available for Sale items, CESR agrees with EFRAG that the issues involved are complex and that more time therefore is required for all parties – the IASB and its constituents - to evaluate properly whether the amended disclosures achieve the objective that was sought. The comment period for the draft comment letter does not allow performing a detailed analysis of the issues. Furthermore, CESR has no evidence that the information as suggested in the exposure draft is readily available to all issuers..
4. Considering that the IASB would proceed with the limited scope as mentioned in paragraph 2 above, CESR would also like to highlight that backdating the effective date to 2008 would be nearly impossible for European issuers to comply with as the financial statements for 2008 will be published before this exposure draft is finalised, translated and endorsed in the EU. CESR would therefore recommend that the requirements regarding the effective date of this amendment with a limited scope as suggested in paragraph 2 above is changed setting the effective date to 1 January 2009 with earlier application permitted.
5. CESR agrees with EFRAG that the lack of a definition of the term “debt instruments” could be problematic when issuers apply the amendment, also considering that the financial statements should be understandable for the users.
6. According to the guidance suggested in IG14A a tabular format is mandatory for the additional disclosures. Although a tabular format seems to be the best possible way for achieving the objective of improving transparency, CESR is of the view that a tabular format as suggested should be one example on how to provide the information presented. In addition, requiring a tabular format may impose difficulties for enforcers of IFRS in determining the presentation of such a tabular format as required by the standards. The amendment should instead clearly explain the purpose of the information required while issuers may find different ways of meeting the overall purpose. Also, it could be considered to expand the example to suggest that information is provided on a more disaggregated basis (e.g. for classes of assets) and not for all instruments as a whole.

CESR has also forwarded the comments as set out above directly to IASB.

I should be happy to discuss all these issues further with you.

Yours sincerely,

Fernando Restoy
Chairman of CESR-Fin