

September 15, 2009

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
First Floor  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Re: IASB Exposure Draft on *Financial Instruments: Classification and Measurement*

Dear Sir David:

The Financial Instruments Reporting and Convergence Alliance (“FIRCA”) is a coalition of nine trade organizations – the American Council of Life Insurers, Commercial Mortgage Securities Association, Council of Federal Home Loan Banks, Group of North American Insurance Enterprises, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable and The U.S. Chamber of Commerce – representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

FIRCA supports the adoption of joint International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) high quality robust accounting standards that are decision-useful, reliable, and relevant; present financial information in a manner that is reflective of the business operations of an entity; and transparently provide information and not drive economic activity. FIRCA appreciates the opportunity to comment on the IASB exposure draft on *Financial Instruments: Classification and Measurement* (the “Exposure Draft” or “Proposal”). Our comments include matters related to the standard-setting process and to the substance of the Proposal itself.

### **Standard-Setting Process**

This Exposure Draft is one of a series of actions that the IASB is taking to improve and simplify the accounting requirements for financial instruments. This is an important and substantial undertaking that will end up replacing the current guidance in International Accounting Standard (“IAS”) 39. The Board published exposure drafts on consolidation and derecognition in December 2008 and March 2009, respectively, and expects to publish two more exposure drafts on impairment of financial assets and hedge accounting in the fourth quarter of 2009. This aggressive timetable reflects the recommendations of the G20 leaders and other international bodies, such as the Financial Stability Board, to accelerate the standard-setting process for revising guidance on financial instruments in response to the global financial crisis.

Meanwhile, with the goal of converging the two sets of standards, the FASB is likewise reconsidering its guidance on accounting for financial instruments under a similarly accelerated process, albeit a somewhat different timetable. Furthermore, the FASB is taking a different approach than the IASB and plans to issue exposure drafts on classification, measurement, and impairment for constituents to comment on at the same time. FASB issued its guidance for derecognition and consolidation in June of 2009.

While it may not be uncommon for the IASB and FASB to deliberate separately on joint projects and then subsequently reconcile any differences in their technical decisions, several important issues arise in the context of the financial instruments project, generally, and this Proposal, specifically. The deliberations to date reveal that the IASB and FASB anticipate significant changes from extant standards. Moreover, deliberations likewise reveal important differences between IASB and FASB positions, including significant differences in approach for classification and measurement, which may not be easily amenable to reconciliation. The potential for significant changes in extant standards raises the profile and importance of this project for market participants, while different positions create uncertainty about whether the IASB and FASB standards on financial instruments will end up converged.

FIRCA has emphasized that the scope and magnitude of the worst financial crisis in 75 years deserves a comprehensive response to financial reporting policies. We urge the IASB and FASB to work together and reconcile their positions before

exposing proposed new standards on financial instruments for public comment. Likewise, as the United States and the Global economy attempt to recover from the financial crisis, the IASB and FASB need to avoid adopting standards that have potentially destabilizing effects. We encourage the Boards to avoid overwhelming market participants with a myriad of substantive changes to extant standards in this unstable economic environment.

Furthermore, the different processes and positions of the IASB and FASB complicate and may actually compromise due process for this joint financial instruments project. At a minimum, the IASB and FASB are burdening constituents with the necessity of considering multiple, piece-meal, and substantially different proposals in very short timeframes. Again, to avoid overwhelming constituents, we encourage the IASB and FASB to reconsider and better coordinate their processes.

Finally, as part of reconsidering the standard-setting process for financial instruments, particularly noteworthy are several recommendations of the United States Securities and Exchange Commission (“SEC”) Advisory Committee on Improvements to Financial Reporting (“CIFiR”), on which the Chairman of the Trustees of the International Accounting Standards Committee Foundation served as an observer. For example, CIFiR recommended that standard-setters be judicious in issuing new standards and interpretations that expand the use of fair value in areas where it is not already required until (1) the completion of a measurement framework to systematically assign measurement attributes to different types of business activities and (2) regulators and standard-setters develop and implement a plan to strengthen the infrastructure that supports fair value reporting. CIFiR also made recommendations for improvements in standard-setting through field work, including cost-benefit analyses, field visits, and field tests. FIRCA encourages the IASB (and the FASB) to implement these recommendations in the context of the two Board’s joint financial instruments project.

### **Substance of the Proposal**

FIRCA believes that “profit or loss” is an important performance measure for preparers and users of financial statements. Therefore, we encourage the IASB to maintain “profit or loss” as the key performance measure for classification and measurement – with realization as a guiding principle for inclusion in profit or loss. Realized changes in the value of financial instruments should be classified as a

component of profit or loss. Unrealized changes in the value of financial instruments should be classified as a component of other comprehensive income (“OCI”) and not impact profit or loss, unless the financial instrument is designated as trading. Thus, we support recycling and, accordingly, recognize the need for guidance on impairment.

We encourage the IASB to consider classification and measurement of financial instruments at fair value or amortized cost based on the underlying purpose of holding or issuing financial instruments with the exception of equity securities, derivatives, those financial instruments held for sale (including loans), and financial instruments to which the fair value option has been applied, which should be carried at fair value. Financial instruments held for trading purposes, held for sale, derivatives, and financial instruments to which the fair value option is applied, are measured at fair value with periodic changes recognized through profit or loss.

We believe that financial instruments (including loans and receivables) that are managed on a contractual yield basis and held to match financial assets or liabilities carried at amortized cost, or whose predominate measurement characteristics most closely resemble an amortized cost measurement basis, should be measured at amortized cost with no tainting. However, financial instruments (including loans and receivables) that are managed on a contractual yield basis and held to match financial assets or liabilities carried at fair value with periodic fair value changes reflected in OCI, or whose predominate measurement characteristics most closely resemble a fair value through OCI measurement basis, should be measured at fair value with periodic fair value changes reported in OCI. Lastly, all other financial instruments (e.g., equity securities) should be measured at fair value with periodic fair value changes reported in OCI.

### **Conclusion**

In conclusion, we appreciate the opportunity to provide our thoughts on this Exposure Draft. FIRCA recognizes the significance of the IASB’s financial instruments project to revise the existing guidance in IAS 39. But, because of its significance, it is important that the project be done right. We urge the IASB to reconsider the substance of the Proposal in accordance with the principles we have outlined. We also urge the IASB to reconsider its process for developing this new

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guidance, including the incorporation of cost-benefit analyses, field visits, and field tests to test the functionality and cost-benefits of the standard. Finally, if better collaboration between the IASB and FASB is not achieved on this project, then prospects for converging accounting standards and standard-setting appear dim.

Sincerely,

American Council of Life Insurers  
Commercial Mortgage Securities Association  
Council of Federal Home Loan Banks  
Group of North American Insurance Enterprises  
Mortgage Bankers Association  
Property Casualty Insurers Association of America  
The Financial Services Roundtable  
The Real Estate Roundtable  
The U.S. Chamber of Commerce