

June 28, 2010

IASB
Comment Letters
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Re: Exposure Draft – Financial Instruments: Amortised Cost and Impairment

The New York State Society of Certified Public Accountants, representing 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact William M. Stocker III, Chair of the International Accounting and Auditing Committee at (212) 503-8875, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Margaret A. Wood
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
EXPOSURE DRAFT – FINANCIAL INSTRUMENTS: AMORTISED COST
AND IMPAIRMENT**

June 28, 2010

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New York State Society of Certified Public Accountants
International Accounting and Auditing Committee

Comments on

Exposure Draft – Financial Instruments: Amortised Cost and Impairment

The New York State Society of Certified Public Accountants thanks the International Accounting Standards Board (the Board) for the opportunity to comment on the Exposure Draft – Financial Instruments: Amortised Cost and Impairment (the ED).

We have the following responses to the specific questions for respondents contained in the ED:

Question 1. Is the description of the objective of amortised cost measurement in the exposure draft clear? If not, how would you describe the objective and why?

Response: Yes, it is clear.

Question 2. Do you believe that the objective of amortised cost set out in the exposure draft is appropriate for that measurement category? If not, why? What objective would you propose and why?

Response: Yes, we believe that the objective of amortised cost is appropriate for that category. We question, however, whether the category itself is appropriate for securities that have a readily ascertainable market value. We consider the costs of the estimation and calculation process for determining amortised cost in the ED to provide insufficient benefits, considering the inherent uncertainties, to retain the amortised cost model for readily marketable securities.

Question 3. Do you agree with the way that the exposure draft is drafted, which emphasizes measurement principles accompanied by application guidance but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?

Response: No, the Board should add an appendix with implementation examples. We particularly request examples for variable rate financial instruments and for credit card loans and similar consumer line of credit products. With credit card portfolios and similar consumer line of credit products, it would be helpful to illustrate the implication for subsequent measurement of changes in the underlying line of credit arrangements (for example, changes in the late payment penalty or changes in the way interest will be charged on existing or new outstanding credit balances).

Question 4(a). Do you agree with the measurement principles set out in the exposure draft? If not, which of the measurement principles do you disagree with and why?

Response: No, for financial instruments that are actively traded, the guidance must address the implication of the active trading value on expected “impairment” consideration. Please note that we have considered the discussion in the “Basis for Conclusions” on “impairment and fair value.” That argument seems to disregard one of the key assumptions included in the value of a financial instrument in an active market which is its collectability. We realize that differences exist under the current model and the differences are likely to be greater than they would under the proposed model. We believe that there is greater justification for the difference under the current model because of the relative simplicity and practicality.

Question 4(b). Are there any other measurement principles that should be added? If so, what are they and why should they be added?

Response: Yes, the Board should reconsider separating the proposed impairment model for amortised cost from its fair value measurement guidance contained in IAS 39, *Financial Instruments: Recognition and Measurement*. For financial instruments, especially for actively traded ones, one would expect that one overall valuation approach would apply for all accounting measurement. Establishing separate models of measuring value for the same financial instrument opens the door for earnings management, specifically as covered by IFRS 9, *Financial Instruments*, an entity is permitted to transfer applicable financial assets between the amortised cost and the fair value categories without being subject to “tainting” considerations.

Question 5(a). Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the exposure draft clear? If not, how would you describe the objective and why?

[No comment.]

Question 5 (b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortised cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?

[No comment.]

Question 6. Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

Response:No, on the balance sheet, an entity should present financial instrument amounts in a manner similar to its presentation of fixed assets (*i.e.*, historical cost less accumulated changes in estimates). Certainly, if not shown on the face of the balance sheet, an entity should provide a detailed disclosure that makes that information available to the financial statement user (see our response below to question 7(b)).

Question 7(a). Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?

Response: No. We understand why, for cost benefit purposes, the disclosure would only be required if the reporting entity performs stress testing for its own purposes. We see several problems, however, with formulating the requirement in this manner:

- 1) Although larger entities will conduct stress testing in any case, we foresee that some smaller private entities may either (a) forgo stress testing to avoid the disclosure or (b) skew the stress test methodologies that they employ to provide more optimistic disclosure when the entity, creditors, equity investors and regulators would all be better served by more rigorous testing even if undisclosed.
- 2) Lack of comparability in stress testing methodologies used by different entities because:
 - a. Different entities choose different methodologies applied in different way.
 - b. Different regulators require different methodologies.
- 3) We foresee the disclosures quickly devolving into “boilerplate” language.

Question 7(b). What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?

Response: In the disclosure, an entity should show the “vintage” recorded cost of the financial instrument (or portfolio of financial instruments) with reconciliation to the amount shown on the face of the financial statements.

Question 8. Would a mandatory effective date of about three years after the date of issue of the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?

Response: Yes, three years appears to us to be sufficient lead-time. This document explains the recognition, measurement and reporting of financial instruments categorized on an amortised cost basis, and will be essential for proper application of the accounting for the related financial assets categorized under IFRS 9; therefore, we believe that this document’s final guidance must have an effective date consistent with IFRS 9 (which is January 1, 2013) if not earlier.

Question 9(a). Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?

Response: [See response to 9(b).]

Question 9(b). Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?

Response: Determining what estimate of the effective rate would have been without hindsight is very difficult to achieve except possibly for those organizations that had explicit models at the time of origination. We are not clear whether the Board is calling for:

- A) Determining what would have been the rate based on historical information up to the point of initial recognition of the instrument, or
- B) Determining the rate with the full use of hindsight, even though there would be no pretense that such perfect estimates would have been made at recognition.

“B)” would be more objective and less biased. “A)” would be the correct result if it could be accomplished. We are not certain which the Board is calling for or if it is purposely allowing both. We believe that the Board should be clear and that for the sake of comparability it should choose one or the other. We are inclined to favor “B)” because greater objectivity would result in greater comparability.

Compared to possible interpretation, “A)” above, we would prefer the alternative transition approach discussed in the “Introduction and Invitation to Comment” section of the ED which is to be used as the IAS 39 effective interest rate for transition instruments.

We are undecided between the possible interpretation “B)” and the Board’s alternative.

Question 9(c). Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirement to restate comparative information would affect the lead-time (see Question 8) please describe why and to what extent.

Response: Yes, we believe comparative information should be restated and subject to the usual “practicability” considerations.

Question 10. Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?

[No comment.]

Question 11. Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?

Response: No, we have concerns with the discussion of practical expedients in that a literal reading indicates that they are only permitted if their overall effect is immaterial. Taken literally, virtually anything is permitted if the effect is immaterial. Also, there is nothing practical about an expedient if all the costs necessary to determine the results of the rigorous methodology must be incurred to compare them to the results of the practical expedients.

If the Board means that the practical expedients are permitted if it is reasonable to believe that the effect is likely to be immaterial, then this would mean that the result would conform with IFRS retrospectively were it later determined that the effect was material (provided the basis for the original assessment were reasonable). The Board should clarify this.

Question 12. Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?

Response: If the board were to accept and implement our response to Question 11, then yes, we believe that guidance on making the determination that it is reasonable to believe that the effect of the practical expedient is likely to be immaterial would be useful.

Other Comments

We are not certain how contingent interest is to be treated under the model. We believe that it would be very useful for the Board to be explicit on this issue. The basic question is, “Can estimates of the collection of contingent interest be used to increase the effective rate?” If so, “Can the total estimated future collections of contingent interest be used, even to increase the effective rate as compared to the rate as currently determined under IAS 39?” Alternatively, “Can total estimated future contingent interest be used only to offset estimated credit losses?”

The questions we have raised above were phrased as “can” the preparer use the estimates of contingent interest. Is the use of “must” or “should” more appropriate or can the entity choose to exclude estimates of contingent interest, at least if not highly certain, under the “Framework” concept of “prudence.”