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January 13, 2010

Via website posting: <http://www.iasb.org/>

Re: Exposure Draft Comment:

**Financial Instruments: Amortised Cost and Impairment (ED/2009/12)**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Financial Instruments: Amortised Cost and Impairment (ED/2009/12)**.

We have also provided additional comments at the end of our responses for expressing our view on certain related matters.

### **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?*

### **Comments**

We note that the measurement proposals in the ED apply to financial assets as well as to financial liabilities. However, application guidance B3 states that for financial liabilities, estimates of expected future cash flows would not reflect the entity's own non-performance risk. It implies that the impairment proposals in the ED apply to only financial assets measured at amortised cost. We recommend that this position should be articulated by clarifying the description of the objective.

### **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?*

## Comments

We note that the term “amortised cost” is applied to financial assets as well as to financial liabilities. In economic parlance the term “cost” implies sacrifice of resources. An entity sacrifices resources (incurs cost) to acquire a financial asset and gains resources by acquiring a financial liability. Hence, although the term “amortised cost” may be properly used with respect to financial assets, its use in relation to financial liabilities is lacking and accordingly we suggest that the term “amortised cost” be replaced by the term “amortised book value” which can be more accurately used in relation to financial assets as well as to financial liabilities. An additional advantage of relying on this suggested term is that it reflects the relevant valuation technique and distinguishes it from fair value accounting.

Subject to the above observation and the comments made in response to Question 1, we believe that the description of the objective of amortised cost measurement in the exposure draft is appropriate.

## Question 3

*Do you agree with the way that the exposure draft is drafted, which emphasises 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?*

## Comments

We note that the ED incorporates application guidance more extensively relative to IAS 39. We endorse the emphasis on measurement principles accompanied by application guidance in the main body of the standard instead of appended definitions as in the case of IAS 39. We also note the Board’s decision to constitute an Expert Advisory Panel (EAP) to advise about the extent and nature of any final guidance necessary, any further practical expedient that should be considered, and undertaking field tests. We trust that the recommendations made by EAP will be articulated in the implementation guidance and the illustrative examples that will accompany the final IFRS.

## 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?*
- (b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?*

## Comments

- (a) We are in general agreement with the measurement principles stated in the ED. However, we also concur with the dissenting Board members' objection to applying these principles to individual financial assets and suggest that the proposed expected loss methodology should be required to apply to portfolios of financial assets whenever it is practical to do so. This is because, at the time of origination of a financial asset, it is not possible to objectively assess expected credit loss individually. If a credit loss is expected for an individual financial asset, it would not originate in the first place.
- (b) We note that application guidance B7-B10 explains sources of data for developing cash flow estimates. In our estimation, clarification would be beneficial as to whether the future cash flows should be estimated on the basis of current macroeconomic conditions, or whether expected changes in these conditions should be factored in while estimating future cash flows. Also, the ED is not clear if, in case of a collateralised financial asset, the future cash flow estimates should be based on the current fair value of the collateral or the expected fair value at the time of its realization. We appreciate that the ED provides more guidance than IAS 39 in respect of variable rate instruments. However, we believe that there are, and that there will be, new financial instruments which cannot be categorised either as fixed rate or variable rate instruments, even though they are eligible for amortised cost accounting as per the principles articulated in IFRS 9. We expect that the EAP will make appropriate recommendations for such instruments.

## 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?*
- (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?*

## Comments

We believe that the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost, as set out in the exposure draft, is sufficiently clear and appropriate.

## Question 6

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

## Comments

We are generally in agreement with the proposed presentation requirements. However, we note that under the new proposals, the information regarding “incurred loss” will not be available to the users of the financial statements. There is no relevant guidance in the ED, but we believe that the entities will be obliged to calculate two EIR (excluding credit losses and including credit losses), and accordingly will be required to maintain two schedules of amortised cost of a financial instrument or a portfolio of financial instruments. This will represent an additional burden to entities.

## Question 7

- (a) *Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?*
- (b) *What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?*

## Comments

- (a) We are generally in agreement with the proposed disclosure requirements. We note that the proposed disclosure requirements, like IFRS 7, will require subjective judgements regarding “class” of a financial instrument and the level of detail to be disclosed. Also, the proposals in the ED regarding “write off”, like absence of enforcement activities, may be at variance with the actual practice followed by the entities. We also believe that the proposal regarding desegregation of gains/losses on re-estimation into those caused by credit risk and those caused by other factors may present operational challenges to small entities. We note that the proposals in the ED with respect to “stress testing” has not clarified what would constitute “stress testing” and refers to only “stress testing” for internal risk management purposes and not “stress testing” mandated by the regulators. We also believe that the proposed disclosures related to credit quality and vintage information related to financial assets would require significant system changes.
- (b) We believe that the proposed disclosures are extensive and sufficient.

## 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?*

## Comments

We note that the effective date for the recently issued IFRS 9 is January 1, 2013 and that the Board's tentative plan is to require a single effective date for all the phases of IAS 39 revision. The final standard on amortised cost and impairment is expected to be issued in the fourth quarter of 2010 as per the current work plan. In that case, the entities will have about two years before implementing the changes in accounting for financial instruments. We believe that in view of the complexity of changes, operational challenges and required system changes, entities should be given a minimum of three years time for implementing these changes and preparing comparative statements.

## Question 9

- (a) *Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?*
- (b) *Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?*
- (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.*

## Comments

- (a) We believe that the proposed transition arrangements in the ED are reasonable, not excessively burdensome on the entities, and will mitigate the difficulties associated with determining expected loss as on a specific past date. However, we note that the proposed transition adjustments will adversely impact the equity of some entities because of potential earlier recognition of credit losses.
- (b) The alternative transition approach is simpler to implement, but we are concerned that the negative impact on equities would increase because of the requirement to discount the future expected cash flows adjusted for expected credit losses by using the EIR determined under the provisions of current IAS 39 that excludes any reduction for expected credit losses. For this reason, we do not endorse the alternative transition approach.
- (c) We agree that comparative information should be restated to reflect the proposed requirements and we have explained in our comments on Question 8 why the proposed lead-time is not sufficient to implement the proposed changes.

## **Question 10**

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

### **Comments**

We are in agreement with the proposed disclosure requirements in relation to transition, and believe that they are sufficient to provide decision useful information to the users of the financial information.

## **Question 11**

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

### **Comments**

We endorse the proposed guidance on practical expedients and consider it appropriate on the considerations of cost and benefits. However, in the case of short-term receivables, the proposals would require them to be measured net of credit losses by using the effective interest method or, alternatively, by also employing practical expedients. This result is in conflict with the guidance provided by AG79 of IAS 39 that permits the measurement of short-term receivables and payables with no stated interest at original invoice amount if the effect of discounting is immaterial. We note that the ED has not proposed any changes to this existing guidance.

## **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?*

### **Comments**

Subject to our comments to Question 11, we have not identified any additional guidance that should be provided on practical expedients.

### **Additional Comments**

We note that there are existing differences between IFRS and US GAAP with respect to the measurement of amortised costs and the tentative decisions made by FASB that propose to measure all financial assets at fair value. Also, FASB proposals exclude the future scenarios in estimating future cash flows. We believe that this position will result

in two different impairment models and, as a consequence, impact the goal of convergence.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamalesh Gosalia at [kgosalia@cga-canada.org](mailto:kgosalia@cga-canada.org) or alternatively the undersigned at [rlefevre@cga-canada.org](mailto:rlefevre@cga-canada.org).

Sincerely,  
[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA  
Vice-President, Research & Standards