CFA INSTITUTE | Centre for Financial Market Integrity

15th April 2009

Sir David Tweedie,
Chair, International Accounting Standard Board
International Accounting Standard Board
30 Cannon Street
EC4M 6XH
United Kingdom

Re: Comment Letter on Request for views on FASB financial instruments amendments

Dear Sir David,

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre),[1] in consultation with its Corporate Disclosure Policy Council (CDPC)[2], appreciates the opportunity to comment on the IASB *Request for views on FASB financial instrument amendments*.

The CFA Institute Centre represents the views of its worldwide members, including portfolio managers, investment analysts, and advisors. Central tenets of the CFA Institute Centre mission are to promote fair and transparent global capital markets, and to advocate for investor protection. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality. The CFA Institute Centre also develops, promulgates, and maintains guidelines encouraging the highest ethical standards for the global investment community through standards such as the *CFA Institute Code of Ethics and Standards of Professional Conduct.*

[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With offices in Charlottesville, VA, New York, Hong Kong, Brussels and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 134 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 136 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The Council is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the Council provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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GENERAL COMMENTS

As the request for views by the IASB is in response to the amendments made through FASB FSPs[3] on financial instrument accounting, please find attached the comment letters to the US Financial Accounting Standards Board (FASB) where we articulate our concerns about the amendments contained in the FSPs.

As you have highlighted in the request for views document, there are significant differences between US GAAP and IFRS financial instrument accounting. These substantive differences include

- Classification categories,
- Impairment triggers,
- Reversibility of impairments and
- Measurement basis when determining impairment charges.

These differences cannot be meaningfully eliminated on an accelerated, reactive and piecemeal basis based on partisan stakeholder demands. It cannot be overlooked that the target and primary areas being put forward for consideration are only those that will result in reduction of reported losses.

We recognise that the IASB has been subject to demands to change its standards so as to level the playing field with US GAAP and to ensure that European banks are not at a competitive disadvantage. Any demand to" level the playing field" is in reality a quest for false comparability given the significant differences that exist and only aids the misrepresentation of economic performance. Besides it should not be overlooked that investors and capital market participants who have the highest quality financial reporting information have the real competitive advantage as they will appropriately allocate their capital.

Across different financial reporting stakeholders, there seems to be unanimity that IAS 39 needs to be improved. This is evident from the comments provided in response to the recently published discussion paper on '*Reducing Complexity for Financial Instruments*'. However, simply adopting US GAAP piecemeal amendments will be disruptive and undermine the intended comprehensive review of financial instrument accounting standards. It will lower period to period comparability and likely necessitate multiple interim corrective measures. Therefore, we reiterate the message that we have made before, that the boards should focus on dealing with financial instrument accounting in its entirety under a single project. Such an approach would be efficient from a project management perspective and would minimise the implementation burden for preparers and interpretation burden for users of financial statements.

There are lessons to be learnt from the piecemeal changes on reclassification of financial instruments that the IASB made, with little opportunity for external input, last October. These changes undermined the credibility of the IASB as an independent standard setter in the eyes of many of its stakeholders.

[3] a) SFAS 157-e, *Determining Whether a Market is Not Active and a Transaction is Not Distressed* and b) SFAS 115-a, FAS 124-a and EITF-99-20-b, *Recognition and Presentation of Other Than Temporary Impairments*.

Subsequently, the IASB and FASB set up the Financial Crisis Advisory Group (FCAG) and conducted several roundtables. We welcomed this consultative approach as it was broad-based, proactive and involved well respected thought leaders. However, to simply adopt the recent FASB amendments, in this particular instance, will compound the adverse impact of previous politically motivated piecemeal changes and short-circuit the benefits of reaching out to all key stakeholders in a deliberative fashion through the FCAG. As the FASB amendments also arose due to political pressure, such a choice will only facilitate the spillover of US based political pressures to international accounting standard setting. On the other hand, only a fully independent and accountable standard setting approach will result in high quality, transparent financial reporting information and engender the confidence of investors.

CLOSING REMARKS

If you, other board members or your staff have questions or seek further elaboration of our views, please contact either Vincent T. Papa, CFA, by phone at +44.207.531.0763, or by e-mail at vincent.papa@cfainstitute.org, or Patrick Finnegan, CFA, by phone at +1.212.754.8350, or by e-mail at patrick.finnegan@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht
Kurt N. Schacht, CFA
Managing Director
CFA Centre For Financial Market Integrity

/s/ *Nitin Mehta*
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Managing Director
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