Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin-american
Accounting Standard Setters

March 27, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft (ED/2012/4) on Classification and Measurement: Limited amendments to IFRS 9

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Exposure Draft on the ED Classification and Measurement: Limited amendments to IFRS 9.

This response summarizes the views of our country-members, in accordance with the following due process.

Due process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in January 2013. All country-members had the opportunity to designate at least one member to participate in this TWG, and the following countries did so: Argentina, Bolivia, Brazil, Chile, Colombia, Mexico (coordinator of this TWG), and Uruguay.

Overall comments

The major issue is the definition of the category of financial instruments at fair value through OCI. The TWG believes it is not well defined. Consequently, if the financial instruments at fair value through profit and loss are those not included either in this category or in the amortized cost category, a deficient definition of financial instruments at fair value through OCI could impact those whose fair value is recognized in profit and loss. We believe that this new category should be determined by default for financial instruments that do not meet the criteria of the other two categories, which have been well defined in the standards currently in effect.

Specific comments

Attached please find our specific responses to the ED.

If you have any questions about our comments, please contact glenif@glenif.org.

[1] The general objective of the Group of Latin America Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Brazil (Chairman), Argentina (Vice Chairman), Colombia (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru, El Salvador (observer) and Dominican Republic (observer).

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Yours sincerely,

Juarez Domingues Carneiro
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

GLASS' Comment Letter on the
IASB Exposure Draft on Classification and Measurement: Limited Amendments to IFRS 9

The group of Latin American Accounting Standards Setters (GLASS), welcomes the opportunity to submit its comments on the Exposure Draft ED/2012/4 on *Classification and Measurement: Limited Amendments to IFRS 9* (the ED) issued for exposure in November 2012. Set forth below you will find our comments on the topics included in the ED.

This project is regarded by some of our constituents as a step forward to recognize that some financial institutions have a business model which requires managing a portfolio of financial assets both on a perspective of generating an interest revenue, as well as monitoring its market value. These businesses compare the interest revenue to the one paid on deposits, to determine the financial yield and use the market value to decide to sell or hold the investment. Therefore, this business model is in line with a current practice of many financial institutions in Latin America.

On the other hand, some other constituents believe that this business model lacks a sound and firm basis and that it may be improperly used to reach some results. These constituents do not see how to set defined limits between this business model and the other two that were well defined in 2009. They agree with the "Alternative Views on Exposure Draft" which argue that the main objective of the IASB in replacing IAS 39 whit IFRS 9 is to reduce the complexity of accounting for financial instruments. An important component of that is to reduce the number of categories to measure the financial instruments. However there will be more different measurement and presentation methods in IFRS 9. They also believe that the Fair value trough OCI measurement category provides a confusing mixture of amortized cost and fair value measurement that will make financial statements more complex and less easy to understand.

The introduction of a third business model will make more complex the accounting for investments in financial instruments. Preparers will have to ensure that the model they are following complies with the characteristics of the chosen model and that, after classifying the instruments in the first two models, the remaining instruments fall properly in the category of instruments to be valued at fair value through profit and loss, by default.

We believe that evaluation of past practice will be key in determining that this third business model has been established by the entity and that there are adequate policies to define the boundaries of its assets and liabilities, to ensure that a sound practice is followed by entities.

Our comments on the specific questions posed in the ED are set forth below:

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purpose of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

We agree that a modified economic relationship between principal and consideration of a financial asset, that is no more insignificantly different from the benchmark cash flows, could be considered, for the purpose of IFRS 9, to contain cash flows that are solely payments of principal and interest.

Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

The addition of paragraph B4.1.8A and the modification of paragraph B4.1.9, as well as the addition of paragraphs B4.1.9A to B4.1.9E, provide sound guidance to understand how to assess a modified economic relationship; however, additional guidance should be provided regarding what "…cash flows that are more than insignificantly different from the benchmark cash flows…" as indicated in paragraph B4.1.9C means.

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB's objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

Except for the comment above in our answer to question 2, we believe that the proposed amendments will achieve the IASB's objective of further clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features and when this mismatch does not modify the fact that the entity is receiving solely payments of principal and interest. Accordingly, it should result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed for both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

(a) interest revenue, credit impairment and any gain or loss on derecognition are recognized in profit or loss in the same manner as for financial assets measured at amortized cost; and

(b) all other gains and losses are recognized in OCI?

If not, why? What do you propose instead and why?

We noticed that bankers agree with this business model and the related measurement of the financial instruments. At a meeting with bankers in one country the bankers indicated that it is the common way of managing the "banking book", as they refer to these kinds of investments. They agree with segregating this category of financial assets, so that they are first recognized at amortized cost through the statement of income and in a second step they are adjusted to their fair value through other comprehensive income (OCI). This accounting treatment provides useful information, since the amortized cost information will indicate the yield of the deposits received, and the fair value information will indicate possibilities of future gains or losses on the sale of securities in the portfolio.

That said, managing the accounting will require two steps, one for valuing the financial instrument at amortized cost and a second step to recognize the adjustment to fair value. However, the group of bankers in such country indicated that the usual procedure is to first recognize the fair value of the investment, debiting or crediting OCI. Immediately thereafter, the amount that affected OCI is split into the portion that affects profit or loss, due to interest, exchange gains or losses and impairment, which are transferred to the appropriate profit and loss account. To do so they maintain in “parallel” the value of the investment at amortized cost in memoranda accounts, or follow other procedures.

We notice that the first sentence of paragraph 5.7.A indicates that impairment losses and foreign exchange gains or losses are not recognized in OCI. Interest revenue is not explicitly excluded from being recognized in OCI. At the end of the paragraph, after a doubt has been created, there is an indication that interest income is recognized in profit or loss. To avoid confusing readers of the standard, interest revenue should be explicitly excluded from OCI since the first sentence of paragraph 5.7.1A.

Question 5

Do you believe that the exposure draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is going to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

The business models that are commonly known in financial markets are the ones of (1) holding assets to collect the contractual cash flows (currently “held to maturity” investments) and (2) holding them for trading (currently included in “fair value through profit or loss” – FVTPL). These two business models are well defined, and a third business model (currently “available for sale financial assets”) is the one that does not fall in the definitions of either of the above.

Due to the above, we have mixed opinions among our constituents regarding how to distinguish the third business model by itself, since the boundaries between this model to the other two models are not very precise, which could lead, if it is accepted that such a model exists, to inadequate presentation of the financial statements. Paragraphs B4.1.4 A and B are not precise and do not identify the characteristics of financial instruments at fair value through OCI. These refer to some examples; however, examples are not a standard, which is what paragraphs B4.1.4 A and B should contain.

Therefore, we suggest that the business models be defined based on the common practice in the markets and not on a theoretical definition, which will have loopholes, since the third business model includes financial instruments that do not fall in either of the previously mentioned business models. This is similar to the classification criteria included in paragraph 9 of IAS 39, with which we agree.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?

The consensus from our outreach activities indicates that this option should be allowed to eliminate an accounting mismatch with a related liability that is valued at fair value. As this is a departure from the business model concept, it will require adequate disclosure regarding how the accounting mismatch is eliminated.

Question 7

Do you agree that an entity that chooses to apply early IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (ie. including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

We believe that using only part of a standard, even if the standard was issued in phases, does not result in reliable information and should be prohibited. Moreover, the information would not be comparable. Accordingly, we agree that an entity that chooses to apply early IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9, including all chapters.

We do not understand why a six-month grace period should be granted to allow newly early applying previous versions once the completed version of IFRS 9 has been issued. Accordingly, we believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is both unnecessary and inadvisable.

Question 8

Do you agree that entities should be permitted to choose to early apply only the “own credit” provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

We agree that entities should be permitted to choose to early apply only the “own credit” provisions in IFRS 9, because the valuation of liabilities at fair value is already permitted by IAS 39, which does not contemplate the additional step of determining the own credit risk of the financial instrument being determined and recognized in OCI, instead of in profit and loss.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

The unique consideration a first-time adopter has to make is if when adopting IFRS, it will apply the rule that has been in effect (IAS 39), to be comparable with entities which have been applying IFRS (without early adoption), or if it will early apply the standard that is expected to be effective in the near future to avoid a change shortly after adopting IFRS. This is a management decision, which is geared more to how the entity will portray its accounting policies and to the cost of changing accounting policies shortly, versus the costs and benefits of "jumping" into a standard whose effects have not yet been fully evaluated.