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International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – FAIR VALUE OPTION FOR FINANCIAL LIABILITIES

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in May 2010.

Our comments on the specific questions in the ED are as follows:

Question 1

Do you agree that for all liabilities designated under the fair value option, changes in the credit risk of the liability should not affect profit or loss? If you disagree, why?

We are of the view that for all liabilities designated under the fair value option, changes in the credit risk of the liability should not affect profit or loss except in situations when such treatment would create a mismatch in profit or loss.

Question 2

Or alternatively, do you believe that changes in the credit risk of the liability should not affect profit or loss unless such treatment would create a mismatch in profit or loss (in which case, the entire fair value change would be required to be presented in profit or loss)? Why?

We are of the view that if a mismatch in profit or loss occurs when changes in the credit risk of the liability is not booked in profit and loss, entities should have the option rather than be mandatorily required to present the entire fair value change in profit or loss.

Question 3

Do you agree that the portion of the fair value change that is attributable to changes in the credit risk of the liability should be presented in other comprehensive income? If not, why?

Yes, we agree that the portion of the fair value change that is attributable to changes in the credit risk of the liability should be presented in other comprehensive income.

Question 4

Do you agree that the two-step approach provides useful information to users of financial statements? If not, what would you propose instead and why?

We are of the view that under the two-step approach, no additional useful information is provided to users of financial statements except for the total fair value change of the financial liability. Nevertheless, we are of the view that the cost of providing this information outweighs its benefit. We propose instead the one-step approach as a more viable alternative as essentially in the one step-approach, the user can obtain the same information by adding the gross amount of the change in fair value presented in other comprehensive income (which is attributed to changes in own credit risk), and the gross amount of the change in fair value presented in profit and loss (which is attributed to factors other than changes in own credit risk, e.g. change in interest rates).

Question 5

Do you believe that the one-step approach is preferable to the two-step approach? If so, why?

Yes, we believe that the one-step approach is preferable to the two-step approach due to the reasons enunciated in Question 4 above, and also that the two-step approach leads to some unnecessary additional steps.

Furthermore, as we have established that changes in the credit risk of the liability should not affect profit or loss, it is somewhat confusing and may not be consistent in terms of principles, when the entire change in fair value flows through the profit and loss first (including the change due to own credit risk) before the portion of the fair value change relating to own credit risk is reclassified out to other comprehensive income.

Question 6

Do you believe that the effects of changes in the credit risk of the liability should be presented in equity (rather than in other comprehensive income)? If so, why?

No, we do not believe that the effects of changes in the credit risk of the liability should be presented in equity. Based on the accounting principles set out in IAS 1 *Presentation Of Financial Statements*, only changes in an entity's net assets resulting from transactions with owners in their capacity as owners should be presented directly in equity. We do not believe that changes in the credit risk of a financial liability represent transactions with owners in their capacity as owners. As such, we do not think it is appropriate and consistent with IAS 1 to present changes in credit risk of a financial liability directly in equity.

Question 7

Do you agree that gains or losses resulting from changes in a liability's credit risk included in other comprehensive income (or included in equity if you responded 'yes' to Question 6) should not be reclassified to profit or loss? If not, why and in what circumstances should they be reclassified?

Yes, we agree that gains or losses resulting from changes in a liability's credit risk included in other comprehensive income should not be reclassified to profit or loss.

Question 8

For the purposes of the proposals in this exposure draft, do you agree that the guidance in IFRS 7 should be used for determining the amount of the change in fair value that is attributable to changes in a liability's credit risk? If not, what would you propose instead and why?

Yes, we agree that the guidance in IFRS 7 should be used for determining the amount of the change in fair value that is attributable to changes in a liability's credit risk.

Question 9

Do you agree with the proposals related to early adoption? If not, what would you propose instead and why? How would those proposals address concerns about comparability?

Yes, we agree with the proposals related to early adoption.

Question 10

Do you agree with the proposed transition requirements? If not, what transition approach would you propose instead and why?

Yes, we agree with the proposed transition requirements.

Other comments

We noted that bifurcation continues to be allowed for financial liabilities with embedded derivatives, whilst bifurcation is prohibited for financial assets with embedded derivatives (IFRS 9, paragraph 4.7). We do not agree with the statement in the Basis of Conclusions

(BC) 8 of the ED that "*Symmetry between how an entity classifies and measures its financial assets and its financial liabilities is not necessary and often does not result in useful information.*" We are of the view that there should be consistencies as far as possible for the accounting of financial assets and financial liabilities. If that is not possible, we urge the Board to consider allowing bifurcation for financial assets with embedded derivatives in cases where it presents a fairer picture (e.g. where it eliminates accounting asymmetry). For example, a bank accepts a structured deposit with an embedded derivative and makes a placement with an identical embedded derivative. Bifurcation should be allowed for both the asset and the liability. The deposit and placement should be measured at amortised cost and the derivatives at fair value though profit or loss. The overall profit and loss effect of the deal would be just fee income earned.

Should you require any further clarification, please feel free to contact Mr Andrew Chua, Technical Manager, at the Institute of Certified Public Accountants of Singapore via email at andrew.chua@icpas.org.sg

Yours faithfully,

Janet Tan
Executive Director

Established in 1963, the ICPAS is Singapore's national accountancy body that develops, supports and enhances the integrity, status and interests of the profession. Today, ICPAS has over 21,000 members.

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