The Hundred Group
of Finance Directors

Financial Reporting Committee

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

17 September 2010

Dear Sir David

Exposure Draft – Financial Instruments: Amortised Cost and Impairment

We are pleased to submit our comments on the above proposals.

Who we are

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. The views expressed in this letter are not necessarily those of all of our individual members or of their respective employers.

Summary

We set out our responses to the Board's specific questions on in the Appendix.

We welcome the approach taken by the Board to consider improvements to financial instrument accounting and to achieve convergence with the FASB.

Our response is written primarily from the perspective of our broader, non-banking and non-financial services companies in our membership. In particular we feel that the current drafting of the ED is specifically directed at financial institutions and this creates considerable difficulties for the practical application of the standard by other entities. It is our belief that the current proposals will lead to an increase in complexity for preparers, ambiguity for investors and uncertainty for auditors. We are therefore inclined to agree with the alternative view that the exposure draft as drafted does not pass a reasonable cost / benefit test and should be redeliberated.

We support the overarching concept that the measurement of financial assets should take into consideration all information available at the balance sheet date regarding expectation of future losses to prevent the overstatement of assets. We believe that it should be possible for some of the concepts underlying the exposure draft to be utilised to develop a model that provides investors with useful, understandable information that can be appropriately verified through external audit.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

C. Lucas

Chris Lucas
Chairman
The Hundred Group - Financial Reporting Committee

APPENDIX

Objective of Amortised Cost Measurement

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?

Yes, in respect of assets which are held to derive an interest-based return by an entity as investments, such as loans bonds and other debt securities.

However, we note that there is considerable focus in the ED on such assets, rather than on assets which are owned and managed as a consequence of transactions arising from incomplete revenue transactions, such as trade receivables. Being mindful to the broad reach of IFRSs we note that trade receivables are held by almost all entities, however more complex assets which are addressed by this standard are not. Consequently, we feel that the application guidance is not the appropriate position to address the treatment of trade receivables.

Trade receivables

As outlined above, we are concerned that the current drafting of the requirements for the impairment of trade receivables does not appropriately reflect the nature of underlying transaction. Whilst we acknowledge that a trade receivable does to a certain extent reflect short-term credit to a third party, this is not its main purpose, nor is it an income earning asset. In actuality in the majority of scenarios, the trade receivable is a direct consequence of a revenue earning activity.

In determining sales prices, we are of the opinion that the majority of non-financial institutions do not consider the level of credit risk associated with extending credit to customers nor the time-value of money. Indeed, should trade debtors be assessed as being unable to pay for goods or services then in reality this would simply prevent the initial sale of goods to that entity rather than charging an additional margin for credit risk. Credit losses subsequently experienced are regarded much the same way as selling expenses or production costs by these entities.

We believe that the adoption of the approach set out in the ED, namely the deferral from revenue of the credit margin, would lead to an increase in non-GAAP information being provided to users of the financial statements as the discrepancy grows between the GAAP measurement basis of revenue and the basis considered by investors to reflect Revenue.

We believe that a more constructive approach would be for trade receivables to be measured at initial fair value with expected losses at each reporting date to be adjusted for and presented as an expense.

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?

As outlined above, we do not believe that the objective of amortised cost is appropriate for assets whose primary purpose is not to derive income for the entity, such as trade receivables.

Measurement Principles

Question 3: Do you agree with the way that the exposure draft is drafted, which emphasises the principles accompanies 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?

We agree with the way that the exposure draft is drafted and are supportive of principles based standards.

However, we feel that principles based standards should stand alone and be able to be understood for application without extensive additional guidance. Such guidance, including examples, is helpful for users, but should be a beneficial extra, rather than a fundamental need due to complex standard writing.

Based on its current drafting our opinion is that, for the majority of companies who have financial assets which are not held with the express purpose of generating interest income, the exposure draft is highly complex and practically possible to implement.

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

We are generally supportive of the proposals for asset measurement to consider future events and to reflect future expected losses.

However, we caution against the use of probability weighted valuations in order to determine the appropriate value of assets (or liabilities). In our opinion assets and liabilities should be valued as a 'best estimate' to represent the expected cash flows for the entity. The utilisation of a weighted average can, and will, in some circumstances (particularly over a large population) provide the same result as management's best estimate of an outcome, however in individual circumstances this will not occur and can lead to amounts being reflected within the financial statements that do not reflect reality.

Objective of Presentation and Disclosure

Question 5: 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?

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

No. We do not find the description of the objective to be clear.

We would emphasise the need for a strong Framework to permit the development of robust IFRS. Without this, it becomes dependent on each standard to try to define clearly the purpose of the standard and what the assets, liabilities and income statement items are purported to represent and therefore, the most relevant disclosures.

The current description of the objective to 'enable users of the financial statements to evaluate the financial effect of interest revenue and expense and the quality of financial assets including credit risk' is not clear for a preparer which is not a financial institution. In this respect in particular we do not find the aggregation of trade receivables and other financial instruments to be helpful to the overall understanding and clarity of the definitions utilised.

Presentation

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

We feel that the proposed requirements might be appropriate for financial institutions but are unclear and unnecessarily extensive for non-financial institutions. Consequently the 'one size fits all' approach creates a complex approach for preparers whose businesses are less complex.

In the case of trade receivables the key disclosure would be surrounding 'credit risk', equating to current impairment charges and allowances. These should be separately disclosed as is currently required.

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

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

In our opinion the proposed disclosures appear needlessly onerous for non-financial institutions, and will in some instances not provide additional useful information for users. Given that non-financial instructions make up the majority of preparers we feel that mandating such disclosures is inappropriate.

Effective Date and Transition

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?

We believe that it is appropriate for the Board to consider an extended implementation timetable for financial instruments, particularly where comparative periods need to be restated using information that may not have previously been collated.

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

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

Do you agree that comparative information should be restated to reflect the proposed requirement? 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.

We agree with the proposed transition requirements.

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

Subject to our concerns over the disclosure requirements for non-financial institutions, we agree with the proposed disclosure requirements relating to transition.

Practical Expedients

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

We do not agree with the proposed guidance on practical expedients.

We believe that the need to include practical expedients highlights the difficulty with applying the current exposure draft to non-financial institutions. This should be addressed through appropriately drafted, principles based standards rather than a 'quick fix' within the additional guidance of a standard.

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?

As set out in our answer to Question 11, we do not believe that practical expedients are an acceptable method for developing high quality accounting standards by the Board.