

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

1 April 2011

By email to: director@fasb.org

**IASB Supplement to ED/2009/12 - Financial Instruments:
Amortised Cost and Impairment**

Dear Sirs

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the IASB's 31 January 2011 Supplement to ED/2009/12: Financial Instruments: Amortised Cost and Impairment ("the SED"). AFME is, as you know, the principal UK trade association for firms active in investment banking and securities trading; it was established in November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We are grateful for the opportunity to comment on this supplementary ED.

We welcome the efforts of the IASB in conjunction with the FASB to address certain issues that have been identified with the Boards' initial proposals on credit impairment. In particular, we agree with the proposal to decouple the calculation and recognition of interest revenues and expected credit losses (i.e. the separation of credit losses from the "integrated" effective interest rate calculation originally proposed by the IASB), which we advocated in our 29 June 2010 comment letter on ED/2009/12, as we believe this approach is key to ensuring that any final model is operational.

We are also pleased to note that the SED reiterates the need to consider all relevant information when calculating expected credit losses, including reasonable and supportable forecasts of future events and conditions, as proposed by the IASB in ED/2009/12. Our members feel that these aspects of the proposal will help to align the impairment model with their credit risk management processes.

We appreciate the work of the IASB and FASB staff in attempting to align the different views of the respective Boards with the requirements of their respective constituents. However we believe the approach proposed in the SED - specifically the combination of two significantly different impairment calculations in a single model - generates a number of new issues that were not raised by the Boards' initial proposals.

Members generally disagree with the compromise approach in the SED

As will have been evident from our 14 March meeting with Sara Glen and Sue Lloyd, there is no consensus view within AFME on the preferred model. Rather than respond to the specific questions in the SED, we have therefore confined this letter to a number of high-level general comments, which we hope will nonetheless be useful to the IASB in taking this work forward.

Many AFME members feel that the compromise model proposed in the SED is an unsatisfactory combination of selected aspects of the two underlying alternative models: it fulfils the conceptual requirement of neither, and introduces an unacceptable degree of complexity, not least the requirement in many cases for reporting entities to operate and maintain multiple models when calculating impairment for a single portfolio.

It follows that our members are not supportive of the SED approach as drafted, and that there is generally a strong preference for a model based on a single consistent approach.

In this regard, certain of our members support the time-proportional approach: these members believe that the primary objective of an impairment model should be to reflect the matching relationship between expected losses and the recognition of interest income from financial assets, and that the time-proportional method provides a practical methodology for doing this without the complexity of the IASB's original proposal.

Other members support a balance sheet driven approach, believing that the primary objective of an impairment model should be to ensure that the loan loss allowance is sufficient to cover losses inherent in the loan portfolio at the balance sheet date.

Impact on convergence

Although a small number of AFME members may be prepared to accept the compromise model proposed in the SED for the sake of convergence, the majority do not believe this would be appropriate. Our members do, however, continue to support convergence in this important area of accounting and would accordingly support the IASB in continued outreach activities in conjunction with the FASB including, in particular, the formation of an additional expert accounting advisory group, in which our members would be happy to participate.

Overall model

Finally, our members are very concerned that they are being asked to look at elements of the impairment model on a piecemeal basis. We believe it is crucial to look at the model in its entirety, in order to determine its appropriateness for preparers and users alike.

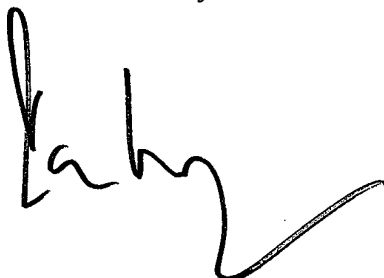
Most members believe that a single impairment model should be developed that covers all financial assets that are measured at amortised cost. They would therefore like the opportunity to assess how any proposed model operates in relation to, for example, closed portfolios, purchased impaired loans, and other financial assets subject to impairment (e.g. loan commitments), as well as to those assets managed in open portfolios.

In our view, it is particularly important to be able to consider, and to comment on, the disclosures for all aspects of the model, as the content and quality of the disclosures provided will be key to ensuring that users will be able to understand the impairment model and associated management judgments made, and to overlay their own judgements on the information provided by the reporting entity.

We therefore believe the full impairment model and its related disclosures should be subject to re-exposure to allow proper assessment by both preparers and users. Further, the model should be subjected to detailed field testing before it is finalised as an IFRS, in order to ensure that all stakeholders fully understand the impact of the proposed approach. In this way the Boards will be able to focus on developing the most appropriate model, and thus maintain their overriding objective of producing high-quality accounting standards.

I hope the above comments are helpful. We would of course, as always, be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully



Ian Harrison
Managing Director
Direct phone: 020 7743 9349
Email: ian.harrison@afme.eu