

Via email: [www.iasb.org](http://www.iasb.org)

June 2, 2010

International Accounting Standards Board

**Re: Financial Instruments: Amortised Cost and Impairment  
ED/2009/12**

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the International Accounting Standards Board (the “Board”) on this proposed standard.

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 35,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Below are the responses to the questions in the Exposure Draft (ED) as agreed to by a majority of the Committee. Significant alternative views are presented if appropriate.

***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?***

The Committee generally agrees that the objective is clearly stated. However, the Committee has difficulty in understanding how the objective is applied to variable rate instruments. How is the effective interest rate determined for a variable rate instrument?

There is also some concern that transaction costs continue to be applied differently for similar transactions. The Committee urges the IASB and FASB to adopt similar definitions for transaction costs for all asset acquisitions – financial instruments, other asset acquisitions, and business combinations. The Committee does, however, agree that direct and incremental costs should generally be included in the cost of an asset.

***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?***

The Committee believes the objective is appropriate.

***Question 3***

***Do you agree with the way that the exposure draft is drafted, which emphasizes measurement principles accompanied 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?***

The Committee generally supports the way that the ED is drafted, but is concerned that without implementation guidance and examples inconsistent application of the standard will result. The model is fairly complex and new to many accountants. The Committee urges that implementation guidance and examples include the interaction of the allowance for loan losses and recalculation of amortised cost in various circumstances.

***Question 4***

***(a) 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?***

Although the Committee generally agrees with the principles, we urge that implementation guidance and examples be included to illustrate how the measurement principles are to be applied.

***(b) Are there any other measurement principles that should be added? If so what are they and why should they be added?***

Paragraph B12 deals with contractual resets, and this seems to be only resets in the original contract. Considerations related to changes in the financial instrument contracted for after the original contract should be added; how the ED might apply to these is unclear. For example, for loans, these may involve new maturity and rates but no credit loss, or may involve loss of principal and/ or penalty interest rates; both of these might indicate elimination of the old loan and creation of a new loan with new measurements of the types described in paragraphs 6 through 10. If there are new measurements, criteria will be needed to determine whether the new contractual terms are sufficiently different from the old ones as to constitute a new loan.

Therefore, a principle as to when loan modifications result in a new loan and new cost measurement is needed. Likewise, guidance as to when a pool of loans is sufficiently modified to constitute a new pool, and whether loans sufficiently modified to be new loans should be removed from a pool, should be addressed.

***Question 5***

***(a) 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?***

Generally the objective is clear, except the Committee finds paragraph 12(b) incomprehensible – “the overall effect” of what exactly? If this objective is met through the disclosures in paragraphs 13-22 then it is unnecessary.

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

Generally, yes.

***Question 6***

***Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?***

Generally, yes.

***Question 7***

***(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?***

Generally, yes, but data should be aggregated to avoid such a large level of detail that the data becomes difficult to interpret.

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

None.

***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?***

Although there was some disagreement within the Committee, generally we support the effective date.

***Question 9***

***(a) Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?***

There was no general consensus on this point since the Committee believes transition should consider the ultimate time frame and transition for permitted application of IASB standards in the United States.

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

Generally, not.

***(c) Do you agree that comparative information should be restated to reflect the proposed requirements? 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.***

Generally, yes.

***Question 10***

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

Generally, yes.

***Question 11***

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

Generally, yes.

***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?***

Generally, no.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "JoAnn Guattery". The signature is fluid and cursive, with a large initial "J" and "G".

JoAnn Guattery, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Certified Public Accountants