March 28, 2013

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street, 1st Floor,
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

Re: Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010))

The Canadian Bankers Association1 (“CBA”) would like to thank the International Accounting Standards Board (the “Board”) for all of its work to date with respect to the proposed changes to IFRS 9 Financial Instruments (“IFRS 9”). We believe that the limited amendments proposed in Exposure Draft ED/2012/4 Classification and Measurement: Limited Amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010)) are a positive step in achieving the ultimate goal of issuing a final standard that simplifies the accounting for financial instruments through the issuance of standards that are principles-based and less complex.

Business Model Test

We thank the Board for acknowledging and responding to the comments in your extensive outreach activities with respect to the need to provide clarifications that would allow banks to measure financial instruments held to address typical treasury management activities (i.e. to manage liquidity and interest rate risk positions and to maximize total return by collecting contractual cash flows or selling the instruments) in such a way that unwarranted profit and loss volatility is avoided.

With banks around the world under increasing scrutiny from regulators to robustly manage their liquidity needs, while also managing their interest rate risk positions, it is crucial that the final accounting standard facilitates the banks’ ability to properly reflect the substance of these activities in their financial reporting. We believe that the fair value through other comprehensive

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1 The Canadian Bankers Association works on behalf of 55 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 274,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada’s economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. [www.cba.ca](http://www.cba.ca).
income (“FV-OCI”) category introduced in the limited amendments will encompass many such liquidity and interest rate management portfolios that otherwise would have been required to be accounted for in FV-P&L under the version of IFRS 9 before the limited amendments. Given our understanding that the Board believes that the Amortized Cost category should not be used for liquidity and interest rate management portfolios in which the sales activity necessary to rebalance the portfolios may be more than insignificant or infrequent, we welcome the new FV-OCI category as a means to reduce P&L volatility that we believe would not have been in alignment with the economics of our portfolios. We also understand that the Board’s view concerning the scope of Amortized Cost did not narrow as a result of the introduction of the FV-OCI category and we believe that it would be helpful if the Board explicitly clarified this point.

While we believe the OCI/equity volatility that would emanate from the use of FV-OCI is preferable to the P&L volatility that may have otherwise resulted from the use of the FV-P&L category, we believe that the OCI/equity volatility is still not the best representation of the business model of a bank. We believe that this is particularly true for portfolios of securities that are held and managed to support liabilities such as deposits and debentures (either from an interest rate management or liquidity perspective) that are accounted for at Amortized Cost as unwarranted OCI accounting mismatch occurs because there is no OCI from the liabilities to offset the OCI from the securities. We also believe that similar considerations apply to banks that wish to economically hedge interest rate risk, in an efficient manner through the use of high quality debt securities, that’s associated with fixed rate preferred shares classified as equity.

However, we appreciate and accept the Board’s view that the Amortized Cost category should only include financial assets that are aligned with the management business model of collecting principal and interest. In particular, we acknowledge that for anti-abuse reasons the Board does not want to expand the Amortized Cost category to include treasury portfolios in which the sales activity is more than “infrequent” or “insignificant” even though the sales activity is conducted in the course of the management of the bank’s liquidity and interest rate positions, including those related to Amortized Cost liabilities. Nevertheless, we believe that further clarification of the dividing line between Amortized Cost and FV-OCI would be beneficial in respect of the ability to sell assets in response to credit deterioration, or concentration risk unforeseen at acquisition, without disallowing the Amortized Cost classification.

We note that the ED indicates that sales that are a result of the deterioration in the asset’s credit quality are not inconsistent with the objective of hold to collect. We understand that it is the Board’s intent, and as a result we believe that it should be clarified, that the degree of credit deterioration that would warrant a sale from the Amortized Cost category is not meant to be as high as the degree that would cause a financial asset to “shift buckets” under the proposed IFRS 9 impairment standard.

Furthermore we believe that it should be clarified that even more than infrequent or significant sales should not preclude Amortized Cost accounting provided that –

(i) the sales are a result of management’s changing view on the credit quality of the assets even if the change in credit quality is not externally observable; and

(ii) there is objective and supportable internal evidence indicating that management believes the credit quality has deteriorated or that the concentration risk for the security being sold is too high relative to the approved mandate of the portfolio and that the concentration risk was unforeseen at the time of purchase.
We believe that this is important in order to not limit management’s ability to actively and prudently manage the credit risk, including concentration risk, inherent in the bank’s various security portfolios. Allowing sales to occur only after credit quality deterioration becomes externally observable is generally too late in most cases. In addition, as an anti-abuse measure, management should have a clearly documented credit risk management strategy to support the different triggers that may result in sales and such triggers should be directly related to management of credit risks.

**Solely Payments of Principal and Interest (“SPPI”) Test**

We understand and appreciate that the bifurcation requirements were eliminated for financial assets in IFRS 9 consistent with the objective of simplifying the accounting, which is an objective that we endorse. However, we have concerns with a number of aspects associated with the use of the SPPI test, including the proposed guidance related to “modified economic relationships”, as the mechanism to define when a “special feature” requires classification in FV-P&L.

We believe in principle that the removal of bifurcation accounting creates a need to ensure that “special features” that are not significant to financial assets or that may only be significant under remote future circumstances are not interpreted to require the entire instrument to be treated as FV-P&L, whilst under IAS 39 the mark-to-market of the bifurcated embedded derivative would not have been significant. This may require the expansion of the “not significant” test to all special features, not just those within the confines of the “modified economic relationships” guidance. We believe that it would be helpful if this was clearly articulated in the guidance with supporting examples contrasting the application of the “closely related” embedded derivative guidance under IAS 39 with the SPPI test under IFRS 9.

Consistent with this notion we believe that the SPPI guidance should be amended to indicate that Amortized Cost accounting for the entire asset should not be precluded provided that the special features in the financial asset would not at the instrument’s inception be anticipated to cause a significant gain or non-credit related loss at maturity of the financial asset that would otherwise be avoided by accounting for the whole instrument at fair value during the life of a financial asset.

Alternatively, it could be beneficial that bifurcation accounting be permitted to allow for insignificant embedded derivatives that would otherwise have caused the SPPI test to fail. In addition, it is arguable that full fair value accounting may not be simpler than bifurcation accounting.

In addition to guidance that more clearly differentiates the SPPI test from the “closely related” test under IAS 39, we believe that the usefulness and clarity of the SPPI test would be enhanced if guidance was provided that more fully explains some of the supporting concepts used. This is particularly true in the “modified economic relationships” guidance within the SPPI test including the meaning of “more than insignificantly different than the benchmark cash flows”. In the absence of such clarifying guidance and based on our discussions with other global financial institutions and banking associations, we are concerned that inconsistent application would result in practice, including conclusions that are not consistent with our understanding of the intended principles of the SPPI test, and that different conclusions across different entities could result for similar or even identical instruments.
Timing of standard

As a result of the complexities associated with the classification and measurement guidance in IFRS 9 and the interrelationship with the impairment and hedge accounting guidance some of which are also in flux, we are concerned that an effective date of 2015 may no longer be feasible. In particular, we believe that the effective date should be at least 3 years from the date the classification and measurement and impairment sections of IFRS 9 are finalized to allow for reasonable preparation time ahead of comparative period data gathering for restatement purposes. Therefore, assuming that the classification and measurement and impairment sections of IFRS 9 are finalized within the next 6 months we believe that the effective date should be extended at least one year for annual periods beginning on or after January 1, 2016.

Conclusion

Although the proposed standard on classification and measurement is not solely intended for financial institutions, the primary driver to make amendments to current IAS 39 is directly linked to the financial crisis. Consequently, these concerns are of particular importance to the banking industry. We are also particularly concerned about the relationship between the classification and measurement of financial instruments and the Basel III capital requirements, especially when differences in the accounting classifications will result in differences in required regulatory capital. The CBA would like to underscore that the objective of financial statements is not intended to be the same as regulatory objectives. Financial statements should portray the economic substance of transactions in alignment with a bank’s business model and should not necessarily aim at addressing the prudential objectives of regulators. However, we understand that in some cases the regulatory and accounting objectives are similar and given the wider impact of the accounting standards, the CBA would call for greater dialogue among standard setters, regulators and other policy makers.

Separately, while we acknowledge and appreciate the Board’s considerable efforts to converge with the FASB, we encourage further convergence on key points relating to classification and measurement to ensure comparability between international banks and U.S. counterparts.

Lastly, if you have any questions concerning our key messages in this letter and/or specific comments or suggestions in response to the Board’s questions in the Appendix, the Chief Accountants of the Canadian Banks would be pleased to discuss them.

Sincerely,
Appendix – Responses to Board Questions on Limited Amendments to IFRS 9

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 purposes 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 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 purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest. We also believe that it should be stated that the SPPI test should be met regardless of whether or not the contractual cash flows are more than insignificantly different from the benchmark cash flows provided that the special feature in question would not at the instrument's inception be anticipated to cause a gain or non credit related loss at maturity of the financial asset that would otherwise be avoided by accounting for the whole instrument at fair value during the life of a financial asset. In addition, we believe that special features that still nevertheless cause the interest to be determined in direct reference to the amount of funds borrowed in an unlevered manner should not fail the SPPI test.

- We also believe that the “not significant” test should be expanded to all special features, not just those within the confines of the “modified economic relationships” guidance. Otherwise the SPPI test will result in many instances of FV-P&L accounting not in alignment with the business model and, in contrast to the embedded derivative bifurcation guidance under IAS 39.

- An example illustrating the need for this amendment can be found when considering the accounting for holders of non-viability-contingent-capital (“NVCC”) instruments, which are becoming an increasingly common source of funding and capital in the financial services sector as a result of regulatory initiatives. NVCC instruments are priced and are expected to behave in a manner similar to long term debt, but are afforded capital treatment by regulators as they generally require that the instrument be converted into common shares at a price that will be punitive to the holder in the contingent event that the financial institution is deemed “not viable” by its regulator. The rationale for this type of special feature is to ensure that the providers of funding under these instruments suffer an economic consequence (similar to the common shareholders) in the unlikely event that the institution’s national government is put in a position to have to provide economic support. In addition, these instruments typically also require interest to be deferred in the contingent event that the institution is not deemed solvent by its regulator. The trigger event of “non-viability” to convert is deemed extremely remote; and therefore, is not of significance from an economic perspective.

- While the holders of such instruments might consider the conversion feature to be an embedded derivative under IAS 39, the mark-to-market would be insignificant over the instrument’s life to the extent that the “non-viability” triggering event to convert continued to be considered extremely remote. However, if it was interpreted that the SPPI test would not be met either as a result of (i) the possibility at inception that the conversion could potentially one day be significant (even though this event is not expected) or (ii) the potential for the deferral of interest in similarly unlikely circumstances (as implied by example B4.1.14G); then the holders of such instruments would be exposed to mark-to-market volatility for
changes in interest rates throughout the life of the instrument (not associated with the conversion feature) even though the change in fair value from changes in the degree that the conversion feature or interest deferral was out-of-the-money was insignificant from period to period. We do not believe this should be the intended accounting under IFRS 9 and its proposed amendments. Absent a revision to include a “not significant” test as described above, it could discourage some holders from investing in these types of instruments, and in turn increase the cost of capital of the institutions issuing these instruments, as the holders generally invest in these instruments in order to earn yield by collecting the contractual cash flows over the instrument’s life.

- We believe that special features that should cause an instrument to not solely be in respect of principal and interest are usually obvious such as equity or commodity linked features, including equity conversion features, in which a gain or non-credit related loss at maturity can be reasonably anticipated at the instrument’s inception.

- In the alternative to expanding the application of the “not significant” test to all special features (not just those within the confines of the “modified economic relationships” guidance), it could be beneficial that bifurcation accounting be permitted to allow for insignificant embedded derivative that would otherwise have caused the SPPI test to fail. In addition, it is arguable that full fair value accounting may not be simpler than bifurcation accounting.

- We understand that the proposed amendments to IFRS 9 related to “modified economic relationships” within the context of the SPPI test were in part made to accommodate certain types of instruments that contain interest rate mismatch features that are not uncommon in certain jurisdictions.

- Consistent with our views above, we believe that such instruments should be clearly accounted for at Amortized Cost if the business intent is to collect contractual cash flows as compensation for the lending of funds. We also believe that it would be preferable to accommodate this objective via the inclusion of the principles we have articulated above and through a definitive example that indicates that the application of the SPPI test to these particular instruments should indeed cause them to be accounted for at Amortized Cost or FV-OCI, rather than create detailed assessment guidance that contains a number of interpretive and operational issues.

**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 inclusion of a detailed assessment approach for the SPPI test, in the absence of clarifying illustrations and examples, creates new complexity in the determination of the classification of financial assets which is inconsistent with the objectives of reducing complexity and improving comparability.

- We believe that either clearer principles consistent with what we have indicated above, and/or more guidance is required to render the SPPI concept, including the guidance related to “modified economic relationships”, operational. To avoid over application of the proposed modified economic relationship test which may inadvertently result in many instances of FV-P&L accounting not in alignment with the business model, we suggest the Board include clarification that such test is intended only for limited features.
- If for example the Board’s intent is for instruments with interest rate mismatch features to be accounted for at Amortized Cost under the proposed amendments, the application guidance should be expanded to provide a numerical illustration clarifying why this is the case and how the detailed assessment should be performed. In the absence of such clarity, we believe that the uncertainties associated with the assessment process set out in the amendments related to “modified economic relationships” could inadvertently preclude Amortized Cost accounting for other instruments in which the economic substance is also to collect contractual cash flows in compensation for the lending of money and for which the notional would be expected to be settled at par if held to maturity. Based on our discussions with other global financial institutions and banking associations, diversity in practice, amongst preparers, will develop in the absence of such guidance and examples.

- To further clarify the intent of the SPPI test and reduce the need for the application of the quantitative assessment guidance that could result in diversity in practice, we believe that the examples should also be expanded to include other special features meant to pass the cash flow characteristics test without a detailed assessment. While assets with prepayment features and extensions and unleveraged interest rate caps and floors (as indicated in BC 120 and Instrument C in the B4.1.13) have been identified in the guidance, other assets with non vanilla cash flows that are still clearly related to only principal and interest such as zero coupon bonds and step-up interest rate assets should also be clearly identified as well. The examples should clearly describe why such features do not require a detailed assessment to assist preparers in better understanding which type of special features would in contrast require a detailed assessment. As indicated above, we believe that interest rate features that will not otherwise cause a gain or loss upon maturity of the asset and which are not levered should be included in the list of these examples.

- To provide further clarity, we believe that the examples should also be expanded to include the types of special features that clearly do not pass the cash flow characteristics test (without a detailed assessment) such as equity and commodity linked features. These examples should also clearly describe why such features do not require a detailed assessment to also assist preparers in better understanding which type of features would require a detailed assessment.

- While the two sets of examples recommended above would greatly reduce the uncertainty in applying the SPPI test, we believe that more detailed guidance and numerical illustrations of the assessment process should also be provided for assets with those types of features in the middle-ground, such as levered interest rate features, in which it is contemplated that a detailed assessment would be required. While we do not believe that assets with interest rate mismatch features should be included in this middle-ground if the feature is not levered and will not otherwise cause a gain or loss upon settlement, if the intent of the Board is to require a detailed assessment we believe that illustrative examples should be provided of when the features both cause a pass and a fail of the cash flow characteristics test.

- We also believe that the detailed supporting guidance and illustrations should clearly articulate the meaning of “more than insignificantly different than the benchmark cash flows” and in particular:
  - the meaning of “insignificant” including the replacement of “not significant” with “not anticipated to be significant at inception” in alignment with the recommendation to clarify the principles we have indicated above.
  - the basis of measuring the “difference” from the benchmark cash flows (i.e. whether it should be based on differences in timing of cash flows versus differences in fair value changes).
  - the determination of the “benchmark” cash flows; and
- the construction of the hypothetical asset – particularly in markets with limited market observable inputs.
- In addition, we believe that application guidance designed to articulate the intended differences between the proposed SPPI test and the “closely related” guidance in IAS 39 would also be helpful.
- While we note that IFRS BC 4.89( c) indicates that “embedded derivative features often do not have contractual cash flows that represent payments of principal and interest on the principal amount outstanding and thus the entire hybrid contract would not be eligible to be measured at amortized cost”, it would be helpful if further application guidance was added to clarify the types of special features that both would; (i) pass the SPPI test under IFRS 9 but would require bifurcation accounting under IAS 39; and (ii) not pass the SPPI test under IFRS 9 but not require bifurcation accounting under IAS 39 (to the extent such situations are envisioned).

**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?

- In the absence of the clarifying guidance discussed in question #2 we are concerned, based on our discussions with other global financial institutions and banking associations, that inconsistent application of the SPPI test would result in different conclusions across different entities could result for similar or even identical instruments, which would in turn result in lack of comparability.
- We also believe that the proposed amendments to the SPPI test add an unnecessary layer of complexity, contain a number of interpretive issues and are too specific in effectively addressing only certain types of instruments, including those with interest rate mismatch features, and therefore could result in the classification of financial assets that may not be consistent or reflective of their economic substance and management’s business model.
- If the SPPI test is to be maintained, we believe that in addition to clearer principles consistent with our understanding of the Board’s intent, a more comprehensive list of examples of features that would (i) clearly pass the cash flow characteristics test, (ii) clearly not pass the cash flow characteristics test; and (iii) and require a more detailed assessment would simplify the application of the standard and increase comparability amongst preparers.
- We also believe that the following clarifications and amendments are required to ensure accounting that is aligned with the underlying economics:
  - While we understand that it is the intention of the Board to include liquidity premiums as a component of interest in the SPPI test, we believe that this should be explicitly clarified.
  - We also believe that perpetual debt instruments should not fail the SPPI test. According to IFRS 9 (as implied by B4.1.14g), those instruments in which the issuer may be required to defer interest payments in the contingent event that predefined solvency ratios are breached and additional interest does not accrue on those deferred interest
amounts, would not pass the SPPI test. Not measuring these instruments at amortized
cost would not reflect the business model of the entity which had acquired these
instruments, which is from the perspective of a holder of a long-term investment
designed to provide a steady yield in all but the most adverse scenarios.

- We believe that it should be clarified that the business model test in IFRS 9 should be
applied to a portion of an instrument under IFRS 9 if the management intent for that
portion is different. For example, in respect of a syndicated loan the portion that
management intends to sell should be held at FV-P&L, while the retained portion should
be classified at Amortized Cost. This treatment would be consistent with the manner in
which IAS 39 is applied.

Question 4

Do you agree that financial assets that are held within a business model in which assets
are managed both in order to collect contractual cash flows and for sale should be
required to be measured at fair value though 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
amortised cost; and
(b) all other gains and losses are recognized in OCI?

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

- We agree that financial assets that are held within a business model in which assets are
managed both in order to collect contractual cash flows and for sale should not be
measured at fair value through profit and loss as many would have been prior to these
amendments and that the introduction of the FV-OCI category helps to alleviate our
concern concerning unwarranted P&L volatility.

- That said we would have preferred that the Board further amend the guidance to indicate
that assets held for the purpose of the management of the interest rate and liquidity risk
of liabilities accounted for at Amortized Cost or preferred shares accounted for in equity,
also be measured at Amortized Cost, and not potentially classified into the newly created
FV-OCI category, as the equity volatility that may result from the use of the FV-OCI
category would result in a mismatch (in OCI and Basel III capital) which would not
properly reflect the substance of these risk management techniques employed by banks.

- This view is based on the premise that the level of sales activity (both in terms of
frequency and significance) within the security portfolios should not hinder the ability to
apply Amortized Cost to the portfolio so long as the sales activity primarily relates to
managing interest rate or liquidity risk associated with Amortized Cost liabilities or
preferred shares accounted for at cost in equity.

- While we believe that the most appropriate accounting classification for most treasury
portfolios activities would have been Amortized Cost, we appreciate and accept the
Board’s view that the Amortized Category should only include financial assets aligned
with management’s business model of collecting principal and interest. In addition, we
understand that the creation of the new FV-OCI category does not further narrow the
intent in regards to the types of business activities that should qualify for Amortized Cost
accounting.
- In particular, we acknowledge that for anti-abuse reasons the Board does not want to expand the Amortized Cost category to include treasury portfolios in which the sales activity is more than “infrequent” or “insignificant” even though the sales activity is conducted in the course of the management of the bank’s liquidity and interest rate positions, including those related to Amortized Cost liabilities.
- Nevertheless, we believe that further clarification of the dividing line between Amortized Cost and FV-OCI would be beneficial in respect of the ability to sell assets in response to credit deterioration without tainting the Amortized Cost classification.
- On the ability to sell assets in response to credit deterioration without tainting the Amortized Cost classification, we note that the ED does indicate that sales that are the result of the deterioration in the asset’s credit quality are not inconsistent with the objective of hold to collect. We understand that it is the Board’s intent, and as a result we believe that it should be clarified, that the degree of credit deterioration that would warrant a sale from the Amortized Cost category is not meant to be as high as the degree that would cause a financial asset to “shift buckets” under the proposed IFRS 9 impairment guidance. Furthermore, we believe that it should be clarified that even more than infrequent or significant sales should not preclude Amortized Cost accounting provided (i) the sales are a result of management’s changing view on the credit quality of the assets even if the change in credit quality is not externally observable; and (ii) there is objective internal evidence indicating that management believes the credit quality has deteriorated or that the concentration risk for the security being sold is too high relative to the approved mandate of the portfolio. We believe that this is important in order to not limit management’s ability to actively and prudently manage credit risk, including concentration risk, inherent in the bank’s various portfolios. Only allowing sales to occur after credit quality deterioration becomes externally observable is generally too late in most cases.
- As an anti-abuse measure, we suggest that management should have a clearly documented credit risk management strategy to support the different triggers that may result in sales and such triggers should be directly related to management of credit risks.
- We are in agreement with the mechanics of the FV-OCI category (i.e. 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 all other gains and losses are recognized in OCI) for those assets which belong in this category.

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 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?

- We agree that the categories should be principles-based and should not be based on strict rules as entities require flexibility to address the many risk management strategies and investment strategies employed by entities around the world. However, we believe that the application guidance should be expanded to deal with the interpretative questions noted in the questions above.
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 CBA agrees that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at FV-OCI.
- The CBA believes that this extension would mitigate accounting mismatches that may otherwise cause P&L volatility in financial reporting results that are not indicative of the entity’s strategies, risk management techniques or the underlying economics.
- We believe that in instances where there is a linkage (e.g. economic, risk management or otherwise) between a financial asset and liability that would otherwise have different measurement basis, that the fair value option extension would allow entities to provide more accurate and relevant financial information by having both the assets and liabilities measured at FV-P&L.
- We also believe that providing entities with the ability to apply FV-P&L accounting to both assets and liabilities that are managed together is consistent with both (i) the ability of insurance companies to offset the OCI from actuarial liabilities with OCI from the hedged securities accounted for in the new FV-OCI category, which the Board has appropriately recognized and addressed; and (ii) our original preference to permit Amortized Cost accounting to be applied to portfolios of treasury assets that are used to manage risks associated with Amortized Cost liabilities; as both paradigms reduce unwarranted accounting mismatch.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (i.e. 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?

- Canadian banks are not permitted to early adopt standards without the consent of their local regulator and as such the CBA does not have any specific comments pertaining to early adoption.

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?

- Canadian banks agree with such permission, although Canadian banks are not permitted to early adopt standards without the consent of their local regulator. As an alternative, we
- suggest that the Board consider dealing with the “own credit” issue as an amendment to IAS 39 rather than through the early application of a portion of IFRS 9.

**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 CBA does not have any specific comments regarding first time adopters.