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International Accounting Standards Board
 30 Cannon Street
 London EC 4M 6XH
 UNITED KINGDOM

Dear Sir/Madam

"Investments in Debt Instruments"

Thank you for the opportunity to provide comments on the Exposure Draft "Investments in Debt Instruments (Proposed amendments to IFRS 7)".

Australia and New Zealand Bank Limited (ANZ) is a bank listed on the Australian Stock Exchange. Our operations are predominantly based in Australia, New Zealand & Asia and our most recent annual results reported profits of USD2.6 billion and total assets of USD376 billion.

We concur with the rationale for splitting the impairment charge on AFS debt securities into the incurred loss component and other fair value movements component. We have a strong preference that only the incurred loss portion of impairment should be reflected in the income statement with the balance recorded in other comprehensive income. This reflects the lack of a cohesive impairment model across all financial instruments (let alone all assets) with different accounting outcomes based on the accounting classification. This is manifest in the difference between the incurred loss model and measuring impairment based on fair value movements.

Increasing the quantum of disclosure does not necessarily increase the relevance of financial information, and in fact the corollary may hold true - i.e. increased volume of disclosures can make it more difficult for users to interpret results and discern key information. Accordingly, we are not supportive of all the additional disclosure requirements, and in particular another reconciliation.

Finally, we acknowledge the IASB's recent pro-active approach to modifying and enhancing the accounting framework. It is noticeable that within the last six months there has been considerably more urgency in making pronouncements and providing guidance, generally with due process. Similarly, we are supportive of the more collaborative approach taken with the FASB and the SEC given the undoubted importance of ultimate convergence with US GAAP.

Our responses to specific questions raised in the Exposure Draft are also attached to this letter.

Should you have any queries on our comments, please contact Rob Goss, Head of Financial Policy and Governance at rob.goss@anz.com.

Yours sincerely

SHANE BUGGLE
Group General Manager Finance

Copy:
Australian Accounting Standards Board (AASB)
Australian Bankers' Association (ABA)
Group of 100 (G100)

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

We are generally supportive of providing additional information about impairment losses on AFS debt investments, for the reasons the Board noted in paragraph BC4 of the ED. This disaggregated disclosure would improve the transparency around recognised in the income statement fair value declines, and allow comparison with the losses recognised on impairment of financial assets carried on the balance sheet at amortised cost. However, we note that such desegregation may be achieved by means other than modelling pro-forma profit or loss, which in our view is not a very common concept amongst IFRS preparers.

On the other hand, we do not support the extension of the requirement to model pro-forma profit or loss assuming that all debt instruments (including loans and receivables carried at amortised costs) are measured at fair value through profit or loss. We do not believe this incremental information is relevant for a number of reasons.

- This extension breaks the nexus with the issue that gave rise to the concern expressed to the Board, which was due to the differing measurements of impairment of assets with similar economic characteristics. By the same token, it is not clear from the published Exposure Draft why the proposal is limited to the asset side of the balance sheet only, and what considerations were made to have concluded that the liabilities carried at fair value be excluded from the scope of this proposal.
- We are concerned that mandating this incremental disclosure, before the IASB completes its fair value measurement project, may be pre-mature. We also note that sufficient information is provided to enable a user of the financial statements to construct such a scenario at present, under the existing disclosure requirements of IFRS 7.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.

Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

No. We do not support this proposal, as in our view this merely adds another mandated disclosure with little obvious benefit to the users of financial statements. More specifically, where preparers of financial statements use the allowance account to record impairment losses, the existing requirements of IFRS 7.16 combined with the disaggregated analysis required by the proposal in paragraph 30A(a), will already achieve the same outcome.

However, we acknowledge that this incremental requirement is unlikely to be unduly onerous. The reporting entity would have all information available, having prepared the disaggregated analysis. Yet our preference would be to leave certain flexibility to the preparers to address their disclosure needs considering own specific circumstances.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

No. We do not support this proposal, for the reasons expressed in our comments to Question 1 above. We note that it also could become unintentionally complex to implement in practice requiring more guidance around the basis of the disclosures, to ensure consistent implementation of the current proposal. In the absence of guidance, questions might arise as to what the process of modelling should entail, for example, where hedge accounting adjustments are involved for loans in effective fair value hedges.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

Yes. We note the stated reason in paragraph BC4, for excluding from this proposal debt investments as at fair value through profit or loss, and we are sympathetic to that the Board is duly considering cost-benefit implications of its decisions. We also recognise (i) the differing nature of the investments held for the trading purposes compared to the investments classified as available-for-sale or loans at amortised cost, which provides potentially additional support for this scope limitation; and (ii) the fact that the recent changes allowing reclassifications out from the held for trading category provide further means to mitigate concerns in this regard. These arguments would not apply to the items designated as at FVTPL; however, we do not have a view on how weighty this is likely to be for the preparers, overall.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

No. We understand the reason why the Board is circumventing the usual practice of providing the entities with a certain implementation period, partially balancing this with removing the normal requirement to provide comparative information. But we note that due to the timing, it is possible that some or many of the 31 December reporters could have their 2008 financial statements completed, or be very close to completion, before the proposed amendments are finalised by the IASB. In addition, local standard setters may be unable to approve changes that apply retrospectively, where prevented by local laws. An alternative solution could be to mandate the application for the periods ending in the first or second quarter of 2009, with an earlier application encouraged.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Yes. We support the removal of the normal requirement to provide comparative information.