Federation of European Accountants
Fédération des Experts comptables Européens

21 January 2009

Mr. Stig Enevoldsen
Chairman
Technical Expert Group
EFRAG
Square de Meeûs 35
1000 BRUXELLES

E-mail: commentletter@efrag.org

Ref.: BAN/HvD/SS/LF/SR

Dear Mr. Enevoldsen,

**Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives***

(1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* (the "ED").

(2) In general, we support EFRAG's comments and agree with the proposals in the ED.

(3) We do not support EFRAG's suggestion to backdate the effective date since this could require withdrawal, restatement and reissuance of financial statements already issued.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms Saskia Slomp from the FEE Secretariat.

Yours sincerely,

Hans van Damme
President

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives***

**Question 1 and Question 2**

**The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.**

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

**The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.**

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

(4) We support EFRAG and agree with the conclusions reached in the ED that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category and that such assessment should be made on the basis of the circumstances that existed when the entity first became a party to the contract.

<u>Detailed comments on the amendment proposed to paragraph 7 of IFRIC 9</u>

(5) We have no specific comments to make on the detailed comments in paragraphs 5 to 8 of EFRAG's Draft Comment Letter and support these comments.

<u>Detailed comments on proposed new paragraph 7A of IFRIC 9</u>

(6) We support the detailed comments in paragraphs 9 and 10 of EFRAG's Draft Comment Letter. Like EFRAG, we agree that the proposed new paragraph is helpful, but think its wording can be improved to take into account the possibility that at some point in time after initial recognition (and before reclassification out of fair value through profit or loss) there has been a significant change in the terms of the contract of the instrument that significantly affect its cash flows.

(7) We welcome and support the suggestion made by EFRAG amending the text of the proposed new paragraph 7A of IFRIC (as detailed in paragraph 10 of EFRAG's Draft Comment Letter).

**Question to constituents:** We note that the assessment as it is described in proposed paragraph 7A could be influenced by hindsight. Usually the concern when an accounting decision can be influenced by hindsight is the risk of accounts manipulation. Although we are not in favour of standards that are driven by anti-abuse thinking, in this case our evaluation is that such a risk is not significant anyway. If you are aware of situations where the use of hindsight in applying the requirements of proposed paragraph 7A might be a concern please let us know.

(8) We are not aware of situations where the use of hindsight in applying the requirements of proposed paragraph 7A might be a concern.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives***

Another potential application issue with IFRIC 9

(9) We have no specific comments to make on the detailed comments in paragraphs 12 and 13 of EFRAG's Draft Comment Letter.

**Question 3**

**The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category. Do you agree with that proposal? If not, why? What would you propose instead, and why?**

(10) We support EFRAG and agree with the proposal that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category.

**Question 4 and Question 5**

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

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

**Question to constituents:** Exceptionally in this case EFRAG supports backdating the amendments proposed in this ED for reasons explained in the preceding paragraphs. However, if you are aware of situations where these amendments may cause significant implementation problems due to the backdating of the effective date, please let us know.

(11) Like EFRAG, we agree that new or amended requirements in IFRS be applied retrospectively to enhance comparability of the financial information reported. We consider that it could be possible for entities to apply the proposals retrospectively as indicated in the ED for annual periods ending on or after 15 December 2008.

(12) However, we do not support backdating as suggested by EFRAG for financial statements with year end any time after 1 July 2008 since there will be entities that already have issued their financial statements, for instance those with year end of 30 September. It would be impracticable and the wrong sign to the market to require these entities to withdraw, and restate their financial statements and subsequently to reissue them. Accordingly, backdating can only be made applicable with a relatively short interval before the date of adoption.

(13) In addition, we would like to point out that the amendments should address to what extent the comparative figures are expected to be restated.