Date

8 April 2005

Le Président

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Dear Sir David,

Re: Amendments to IAS 39 Financial Instruments: The Fair Value Option – Effective date and transition provisions

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to submit its views on the further Proposed Amendments to IAS 39, Financial Instruments: The Fair Value option, and more particularly in this case the effective date and transition provisions. Though FEE has not been invited to participate in the Roundtable meetings on 16 March 2005, we have submitted our views in a letter dated 15 March 2005 on the current proposals for the Fair Value Option and furthermore other comments at various stages during the process. We trust these will be considered in the discussion and finalisation of the proposal.

We appreciate that IASB has reacted to the concerns of the supervisory authorities with the new approach for the fair value option in IAS 39 with the purpose of achieving a deletion of the fair value option carve-out in the EU endorsed version of IAS 39. We are pleased to note that participants at the roundtables were generally supportive for this new approach. As you are now in the process of finalising your deliberations and requested reactions to the effective date and transitional provisions, we would like to submit below our views on these issues.

1. An entity that adopts IFRSs for the first time, applying IFRS 1 before 1 January 2006, is allowed to present comparative information which is not in compliance with IAS 39; effectively thereby the first implementation date of IAS 39 is set at 1 January 2005. Entities however have the option to apply IAS 39 (as well as other standards) as from the transition date of 1 January 2004. For first time adopters who are opting for a 1 January 2004 transition date, it is crucial that the transition provisions of the amended Fair Value Option can be retrospectively applied to that date. From the proposed wording of the first time adoption and transition provisions this is not clear. When the rules would not be amended as outlined above, an entity would in the comparative year not be able to apply the Fair Value Option. This would lead to financial statements that are inconsistent and incomparable. The main reason for opting for a 1 January 2004 transition date is to achieve comparability within the years presented in the first IFRS financial statements. In our view the risk of abuse by allowing retrospective designation is very low: the fair value option can only be applied as restricted by the proposed changes in IAS 39 and furthermore where the fair value option would not be consistently applied in those first two years, this would lead to un-comparability that would raise questions from users, that preparers would want to prevent, as the sole purpose of a 1 January 2004 transition is to achieve consistency and comparability.

2. We fully understand the strict timetable under which IASB is working to complete the revision of the Fair Value Option. It is likely that the final text of the revised standard will not be available before June 2005. The preparation of interim financial statements in 2005 for first time adopters in accordance with IFRS (as endorsed in Europe) will for that reason encounter difficulties, when the revised Fair Value Option is not available at the time the interim financial statements are drawn up. There are many entities that will under the revised (and thereafter hopefully endorsed) IAS 39 opt for designating certain financial liabilities at fair value. This is prohibited under the current endorsed version of IAS 39. IAS 34 - if applied - requires entities to apply in the interim financial statements the accounting policies that will also be applied to the financial statements for the full year (IAS 34.28-29). Application of the Fair Value Option to the full financial year 2005 through designation as from 1 January 2005, including designating financial liabilities, will lead to adjustments of the interim financial statements issued earlier in the year.

   More guidance would be helpful to resolve these issues with interim information. Would it be allowed for instance to early apply the Amended Fair Value Option on the basis of the ongoing discussions in the Board?

3. We have discussed the three alternatives for designation of financial assets and financial liabilities. We prefer alternative B or C. We see both alternatives as workable in practice for entities. Alternative A is not favoured as it is considered too restrictive. Alternative C allows for more flexibility. In our view, both alternative B and C are not likely to create the possibility for abuse (also refer to our comments above for first time adopters that equally apply to IFRS preparers).

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President