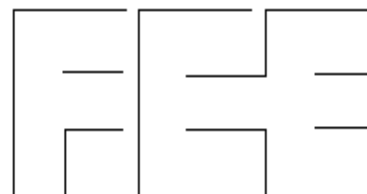


Date
8 July 2005

Le Président

Fédération
des Experts
Comptables
Européens

Avenue d'Auderghem 22-28
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be



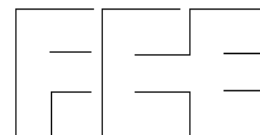
Mr. Robert Garnett
Chairman
IFRIC
30 Cannon Street
GB- London EC4M 6XH

commentletters@iasb.org.uk

Dear Mr. Garnett,

Re: IFRIC Draft Interpretation D15 Reassessment of Embedded Derivatives

1. FEE (European Federation of Accountants, Fédération des Experts Comptables Européens) is pleased to submit its views on the IFRIC D15 Reassessment of Embedded Derivatives. FEE as a founding organisation of EFRAG has also contributed to the EFRAG commenting process by submitting our views on their preliminary comments. This response should be read in conjunction with the response submitted by EFRAG.
2. Although we agree with the conclusion in IFRIC D15 that entities shall assess whether to separate embedded derivatives when the entity first becomes a party to the contract and that subsequent reassessment should be prohibited, we have strong doubts whether the issue requires an IFRIC interpretation. Our impression is that in practice the issue has always been interpreted as indicated by D15 as a result of the application of IAS 39, IFRS 1 and the Framework and by applying common sense. There are many other issues in IAS 39 that could be fine-tuned. We believe that D15 is unnecessary and risks undermining the principles-based approach as embraced by the IASB.
3. The draft interpretation distinguishes between changes in market conditions and changes in contractual terms and conditions. Changes in contractual terms and conditions would give rise to reassessment, while changes in market conditions do not. In our view the conclusion is consistent with a comparable assessment required for financial instruments in IAS 32: the distinction between an equity and liability component of a compound financial instrument. In IAS 32 the assessment at inception of a contract is explicitly stated.
4. The interpretation provided raises further questions as to what are relevant changes in the terms and conditions of a contract that would require a reassessment. For example, if any minor change in the terms and conditions would lead to a reassessment, there may be a basis for abuse. If a change in the terms and conditions does not affect the cash flows (and therefore not the risks and rewards of the instrument), there is in our view no basis for a change in the outcome of the evaluation of the contract.
5. The paragraph BC11 addresses the commodities contracts that need to be assessed for the application of the own use exemption or derivatives accounting. The text implicitly suggests that the



question of a required reassessment would be interpreted differently for those types of contracts than for embedded derivatives. This is in particular the case because of the wording “The IFRIC noted that different considerations arise for such contracts”, without further explaining what sort of different considerations arise. The paragraphs IAS 39.5-7 have a similar purpose as the paragraphs in respect of embedded derivatives: ensuring that all contracts that are derivatives are accounted for as such (or in IFRIC’s words in BC5: to prevent that the recognition and measurement requirements for derivatives are circumvented). By giving such an implied interpretation, the principles-based approach risks being further undermined. We are of the opinion that although it may be correct that the interpretation of embedded derivatives does not address commodity contracts, no implied interpretation of commodity contracts is needed. We support EFRAG’s suggestion to amend the wording of paragraph BC11 in this respect.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'.

David Devlin
President