Federation of European Accountants
Fédération des Experts comptables Européens

1 September 2009

Mr. Jeroen Hooijer
Head of Unit
DG Market
European Commission
Rue de la Loi 200
B-1049 BRUXELLES

Ref.: FRP/HvD/SS/SR

Dear Mr. Hooijer,

Re: EC Stakeholders meeting ED Financial Instruments: Classification and Measurement

(1) We welcome the Commission's initiative to organise EC Stakeholders meetings on the ED Financial Instruments: Classification and Measurement, bringing together representatives of the various stakeholders groups with an interest in financial reporting in order to exchange views on the future standard on financial instruments. It is a valuable experience for the stakeholders to be aware of different points of view held and to discuss possible constructive solutions and compromises.

<u>A single set of global standards</u>

(2) The financial crisis is a global phenomenon that calls for a global reaction. FEE is strongly committed to robust, high quality global principle-based financial reporting. FEE believes that countries and markets are best served by high quality financial information and that this is best delivered by a single independent global standard setter for accounting and corporate reporting. Global financial markets require financial information prepared in accordance with global standards for reasons of competitiveness and comparability and for capital raising purposes. For these reasons, FEE supports the use of IFRS as the single set of global standards.

(3) Political leaders in Europe called for a level playing field in comparison with the US. New standards on major issues, such as financial instruments or pensions, should as a matter of principle be developed jointly by the IASB and the best resources available from national/regional standard setters, with active participation from preparers, users and accountants at a global level. This would ensure that the resulting standards are generally acceptable which in turn will facilitate the adoption of IFRS by all major countries around the world. In order to obtain a level playing field, all countries should be called upon to adopt full IFRS.

Regulatory reporting

(4) We fully support the calls by the G20 on the accounting standard setters "to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards"[1] and "to make significant progress towards a single set of high quality global accounting standards; and within the framework of the independent accounting standard setting process - improve involvement of stakeholders, including prudential regulators and emerging markets, through the IASB's constitutional review"[2].

(5) We underline that regulatory reporting and general purpose financial reporting have different objectives. Financial stability is primarily the responsibility of the prudential regulators. The financial reporting role in financial stability is to provide, and in the current circumstances restore, market confidence by providing transparency and a true and fair view on financial performance and position in individual reporting periods. Prudential regulators are only one of the stakeholders of financial statements and their main objective is to ensure the long-term stability of the system on behalf of depositors, which results in the incentives to keep the necessary capital within the financial institutions, whereas shareholders and investors require a more performance oriented view.

Comprehensive approach

(6) FEE supports a complete revision of IAS 39 rather than an ad hoc piecemeal approach of small changes to accommodate market participants' requests. We believe that a piecemeal approach would further increase complexity rather than reduce it. We also underline that a comprehensive approach has been advocated by the Monitoring Board which announced in a press release of 8 June 2009 that "the members of the Monitoring Board support the recent commitments by the International Accounting Standard Board (IASB) to undertake a comprehensive review of the International Financial Reporting Standards (IFRS) relating to financial instruments to address the recent statement from G-20 Leaders regarding need for improvements on the accounting standards on valuation and provisioning."

(7) Ideally such a revision should be done as one comprehensive project in which all interrelated aspects of financial instrument accounting are reviewed at the same time. However, we appreciate the political pressure and time constraints put on the IASB and under these circumstances understand the IASB's approach to opt for a complete revision of IAS 39 in three stages, within a tight timeframe, even though such an approach may have some drawbacks. This approach has been chosen in order to accelerate the replacement of the financial instruments standards and is intended to simultaneously address the consequences of the crisis as speedily as possible. In this way it is expected to achieve that a standard on classification and measurement of financial instruments will be available for voluntary application already for 2009 financial statements.

[1] G20 Leaders' Statement, 2 April 2009
[2] G20 Declaration on Strengthening the Financial System, 2 April 2009

(8) The approach of delivering the revision in separate phases might cause impediments to an early adoption, in particular with respect to topics that are interrelated. The development of the other two phases on impairment methodology and on hedge accounting may have an impact on the conclusions reached in the first phase and may require IASB to make further limited changes and elaborations to the standard on classification and measurement. Preparers will have to make a decision whether it is beneficial to early adopt where there is possibility of further consequential amendments later on.

(9) We believe that the ED is addressing the complexity of the existing standards on financial instruments by reducing the number of classification categories to two (with an additional third category fair value through OCI available by election for equity instruments not held for sale) and the cancellation of the tainting and embedded derivative notions. Simplification in the accounting for financial instruments is welcomed by all stakeholders. The fact that more prominence is given to the business model in determining classification has been received positively by many and in our view contributes to reducing complexity.

(10) The transition provisions of the proposed standard need to be considered carefully, in particular in the light of early adoption and application by certain industries. Early adopters should not be disadvantaged for choices made now. In addition, an adoption approach along the lines of that for IAS 32/39 and IFRS 4 in 2005 may be necessary at least for early adopters. This would result in the opening balance sheet at, say, 1/1/09 being stated as if the new requirements had always been applied, but would avoid the need to re-create comparatives for earlier periods.

(11) Financial instruments classification decisions may depend on the resolution of other projects, in particular for the insurance industry on the IASB's project on Insurance Contracts. Given the close link between financial instruments and insurance contracts, it would be regrettable if entities within this industry were required to make certain decisions in accounting for financial instruments that prove inadequate when a revised standard on insurance contracts is implemented or if they were forced to change their accounting for insurance contracts to avoid accounting-mismatches in an intermediary phase. Consideration should be given as to whether any special reliefs should be provided in the transition provisions for insurers to allow them to present information in a meaningful way that minimises the accounting mismatches between the measurement of financial assets and insurance liabilities.

(12) It is crucial that the future standard on classification and measurement of financial instruments is robust and of good quality. All financial reporting stakeholders should therefore commit to contribute to the standard setting process in a constructive way by providing the IASB staff with information about issues, difficulties, practical case studies and examples and suggestions for improvement during the commenting period and not only at or after the commenting deadline. All stakeholders have a shared responsibility in this respect.

(13) We commend the efforts of the IASB and its staff have made over the summer period to reach out to, and discuss its proposals with, many of its stakeholders, including the IASB Roundtables that are scheduled for the first half of September. European stakeholder organisations should be called upon and stimulated by the EC to contribute to the London Roundtable on 10 September in a constructive way.

(14) The IASB should consider reviewing the entire comprehensive standard when completed and undertake any improvements if necessary with a proper due process including public consultation. In this way the process of standard setting could benefit from the experience of those reporting entities that have opted for early adoption of the Classification and Measurement standard and perhaps of the Impairment standard.

<u>Move to one set of global standards</u>

(15) As underlined in FEE's policy statement Future Approach to Setting Global Financial Reporting Standards, it is important to use all existing high quality accounting standard setting expertise from around the world, including those within FASB and EFRAG, to work together on a new standard on financial instruments as a replacement for IAS 39.

(16) The IASB and the FASB should work together in an attempt to reduce any differences and to this effect the IASB should be commended for its intention to expose also the FASB proposals as indicated in the ED. We find it highly unfortunate that at present FASB seems not to be moving at the same pace and in the same direction as the IASB. However, were the FASB to move in a direction that is not meeting the reporting needs of the rest of the world, we believe that IASB should opt for a truly global solution supported by preparers, users and accountants at a global level.

<u>Accountancy profession</u>

(17) Our profession - FEE, our Member Bodies (the National Institutes) and the audit firms - are in the process of preparing their responses to and technical comments on the ED to EFRAG and to the IASB. Several of us have cooperated over the summer with EFRAG and the IASB to raise issues, examples and cases in order to constructively contribute to the standard setting process with as aim to develop a high quality standard for financial instruments within the agreed tight timeframe and will remain committed doing so.

For further information on this letter, please contact me or Ms. Saskia Slomp, Technical Director.

Yours sincerely,

Hans van Damme
President