



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



A F E P

Association Française des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, April 18, 2009

Re: *DP "Request for views on proposed FASB Amendments"*

The financial crisis has enlightened weaknesses in the accounting for financial instruments, both in US GAAP and IFRS, and both the IASB and FASB have committed to bring converged solutions to those weaknesses.

After the round-tables that have been organised last November, the IASB and FASB have committed to reconsider the existing accounting requirements for financial instruments in as comprehensive a fashion as possible, in view of avoiding the shortcomings that quick fixes generally entail.

A few months have passed and only late last month the general directions for the revision of IAS 39 have been agreed. The path of development of the desirable comprehensive approach seems too slow to ensure that appropriate requirements will be ready for the closing of 2009 annual accounts. In releasing the announcement that no exposure draft will be ready before September 2009, the IASB has confirmed that state of fact.

We understand that the IASB plans to decide during its April meeting, after analysis of comments received following the request for views on the FASB FSP's, what course of action to adopt – either short scope amendments to IAS 39 or the comprehensive review as planned in 2008.

We believe that FASB FSP's – more particularly as they have been finalised – do not bring all the amendments that need to be available for application in 2009 accounts. After IASB's latest announcements that no amendment would be issued in time for 2009 closings expected in December 2009, we believe that both Boards need to work actively together – in order to safeguard as much level playing field as possible – so that some amendments to IAS 39 are proposed before the summer and finalised in time for proper application to 2009 annual accounts.

We explain below the reasoning behind our proposals and the amendments that we believe are absolutely necessary. Most of these amendments are those that were requested by the European Commission in its letter dated October 27, 2008.

1- The IASB timetable prevents commitments made to the G20 from being met

Meeting the 2009 deadline set by the G20 means that companies will be in a position to close their 2009 annual accounts after proper implementation of new requirements. Were the IASB to issue new requirements by the end of 2009, the commitment made to the G20 would not be met. Most companies, at least in Europe, close their annual accounts in December. The issuance of an exposure-draft in September is not compatible with the commitment made by the IASB. New requirements need to be issued in September or October in order to be implemented properly by year-end. We believe that the FASB amendments are quite timely, although the scope of improvement they bring is too narrow.

Moreover the G20 has emphasised the need for convergent accounting requirements. Ensuring a level playing field in today's worldwide open financial markets should be one constraint that the IASB submits its process to.

As a result we believe that the IASB has no other choice than to proceed with its comprehensive review, step by step, dealing with the revision of impairment requirements and of possible reclassifications as a matter of priority. A final amendment dealing with these issues should be published at the latest in September of October this year. Progress on the other issues of measurement can be made in parallel and materialise in a final standard by the end of the year.

2- Modifying the criteria for identification of an other than temporary impairment of a financial asset - FASB FSP FAS115-a, FAS124-a and EITF 99-20-b.

As is stressed in the request for views issued by the IASB, IAS 39 and US GAAP impairment requirements are rather dissimilar. We therefore understand that different requirements are needed in IFRS to lead to similar outcomes.

We support the decisions made by the FASB:

- to require to apportion an impairment loss on debt securities between the change in fair value triggered by a change in credit risk and the change in other factors, and to require that only losses resulting from changes in credit risk be reported in profit and loss. We observe that this decision is consistent with one of the recommendations made by the European Commission in the later months of 2008;
- to allow this impairment accounting when the entity does not have the intent of selling the asset and when it is more likely than not that the entity will not have to sell the asset before the value of the asset has increased back up to cost;

We however believe that this amendment should be extended to cover equity securities, as the FASB had proposed. No differentiating factor between debt and equity securities justifies different requirements in this area.

In addition, we believe that the prohibition of reversal of impairment losses should be lifted.

The FASB should be encouraged to amend US GAAP beyond decisions made early April to bring as much as convergence in both Boards' decisions.

3- Determining whether transactions on an inactive market are distressed – FASB FSP 157-e

Although the IASB Expert Advisory Panel guidance was issued in October last year and fully endorsed by regulators, preparers have had serious difficulties in making judgement dominate in the assessment of whether transactions on an inactive market were distressed. The burden of proof has been on preparers to bring evidence that transactions were distressed; as the IASB Expert Advisory Panel guidance states, assessing whether a transaction is distressed requires the exercise of judgement; however, preparers have suffered very severe pressure to provide objective evidence that transactions were distressed, what has proven to be quite difficult to do. As a result transaction prices that were deemed not be representative of fair value had to be used.

In this context we had welcomed and approved that the FASB had proposed to reverse the burden of proof in setting a rebuttable presumption that transactions taking place in an inactive market are distressed. Although we believe that judgement should have authority, we regret that the FASB has abandoned the rebuttable presumption in its finalisation of the FSP 157-e. The proposed guidance, consistently with the IASB Expert Advisory Panel guidance, clearly states that not all transactions in an inactive market are distressed and that the exercise of judgement is highly necessary. We believe that reverting to the use of models using current market inputs relevant to the intrinsic characteristics of the instrument such as the risk-free interest rate, delinquency rates or exchange rates, is the appropriate method in such circumstances to provide a value that is representative of a market-consistent exit price.

In the light of the experience of our 2008 closing, we believe that the IASB – and FASB – should implement the FASB proposals as they were initially issued.

4- Reclassification of financial instruments out of the fair value option

In its letter dated October 27, 2008, the European Commission had stressed the need to modify existing requirements in order to lift the prohibition of reclassifications out of the fair value option. We believe both Boards should consider reviewing their existing standards on this issue as a matter of priority, too.

In summary, we believe a comprehensive review of the existing requirements was, in our view, the best possible course of action, in order to minimise successive changes and promote greater convergence on more robust bases with US GAAP. However the IASB and FASB have failed making their project as high a priority that they would be close by now to issue an exposure-draft. We therefore believe that a first series of amendments should be decided and proposed shortly so that the commitment made to the G20 is met in substance.

5- Disclosures


We support requirements for disclosures where disclosures enhance transparency and usefulness of financial reporting for users. However we believe that disclosures need to be carefully selected and designed in order to avoid unnecessary burden on both users and preparers. To that purpose disclosures must be expressed in terms of principles and objectives and preparers must be left the duty of carefully preparing the necessary information to meet those objectives. Detailed list of requirements do not bring useful disclosures.


Should you wish any further information on the above, please do not hesitate to contact us.

Sincerely yours,

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