A F E P

Association Francaise des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
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Paris, September 5, 2008

Re : Reducing complexity in Reporting Financial Instruments

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the IASB discussion paper presenting directions for reducing complexity in Reporting Financial Instruments.

While we would support a future revision of the accounting requirements for financial instruments, we firmly believe that the Discussion Paper is on the wrong tracks.

First of all, we do not share the view that a relevant standard for financial instruments would need to call for measurement on a single basis. We believe that IAS 39 is complex, not only because financial instruments themselves are complex (a complexity the Board cannot reduce), but mainly because IAS 39 is a very long set of anti-abuse driven rules. The simplistic approach proposed by the Board – let's adopt one single measurement basis and complexity will go – remains unsubstantiated. As a result, we believe that the entire discussion paper is flawed, because it does not address the subject on an appropriate basis.

Secondly, we observe that the Board has no other objective but to call for all financial instruments to be measured at fair value. We believe that the selection of an appropriate measurement basis is a means to achieve relevant financial reporting and cannot be an objective per se. As a result we disagree that the only improvements that the IASB would consider are those that will increase the number of financial instruments measured at fair. Improvements have to be considered solely in terms of relevance and overall usefulness of financial reporting.

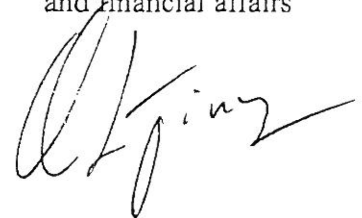
Thirdly, we disagree with the approach by the IASB of hedge accounting. In our view, hedge accounting must be made fit and best reflect entities' hedging strategies. As of today hedge accounting is far too restricted and constrained by an anti-abuse obsession. Entities report as if they were engaged in trading activities although they are not and describe in their commentaries hedging strategies of which impacts are nowhere to be reflected, because existing accounting requirements make hedge accounting at least partly either impracticable or too costly. Financial reporting will be understandable and useful if users can easily identify the impact in financial statements of hedging strategies described by management in the management commentary.

The IASB would, in our view, provide principle-based requirements for hedge accounting more easily if hedge accounting requirements were the subject for a separate standard. Recognition and measurement of financial instruments on one hand, hedge accounting on the other, respond to different objectives and constraints. We believe understandability of requirements would be greatly enhanced if the two approaches were not mixed, and if each of them responded to the specific needs they help fulfil. As a result, we believe that attempts to have the fair value option adjusted to the needs for fair value hedge accounting should be abandoned. Even if, following decisions the IASB would make, the final outcome would be the same, we believe that sound and simple conclusions require that each accounting requirement be thought thoroughly in order to define the most appropriate conditions in which it must be applied. Justifications for these conditions would also be easier to articulate – and hence to understand.

Finally, we observe that the Board fails to meet the objective it had set when deciding the issuance of the discussion paper on financial instruments. Although we acknowledge the relevance of fair value measurement for financial instruments in some circumstances, we are not convinced that it is the appropriate measurement attribute in all circumstances. We recommend the Board design appropriate measurement principles and let entities apply those measurement principles to the instruments they hold, bear or trade. Any other approach would in our view lack both relevance and understandability.

We provide the detailed analysis in the appendix to this letter.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO	AFEP	**MEDEF**
Patrice MARTEAU Chairman	Alexandre TESSIER Director General	**Agnès LEPINAY** Director of economic and financial affairs
		

Appendix to ACTEO & MEDEF's letter of comments on the discussion paper presenting directions for reducing complexity in Reporting Financial Instruments

Question 1

Do current requirements for reporting financial instruments, derivative instruments and similar items require significant change to meet the concerns of preparers and their auditors and the needs of users of financial statements ? If not, how should the IASB respond to assertions that the current requirements are too complex ?

We concur with a vast majority of stakeholders to assess IAS39 as a very complex standard. The IASB has however not analysed and not identified where the complexity lies.

Most of IAS 39 complexity lies in :

- its lack of understandability : no principle has been set clearly ; IAS 39 is a very detailed set of rules, interacting with each other as do the body of the standard, the mandatory application and implementation guidances,
- IAS 39 scope is far too complex,
- the accounting for financial instruments being anti-abuse driven, without any search for relevance.

We do not believe that the mix-measurement attribute feature is generating any form of UNDUE complexity. There is a huge variety of financial instruments, some of them being complex in nature, and their economic role within an entity varies greatly. As a result, a single measurement attribute is likely to obscure the interaction between the financial instrument and its impact on the entity's financial position as one single measurement attribute will not be able to support predictive financial information in all circumstances.

We note that there are basically two measurement attributes for financial instruments, amortised cost and fair value, and we believe that these two measurement attributes are needed to ensure that financial assets and liabilities are accounted for in a relevant manner. Indeed we believe that market variations should be reflected in the measurement of assets and liabilities only to the extent that market variations have an impact on the cash outcome of the instrument. Instruments which are due to be settled in conformity with their contractual features (interest rate for debt instruments for example) are best measured in accordance with contract inputs (which are characteristics of the instrument, not of the entity), i.e. at amortised cost, if financial statements are deemed to have predictive value. As a result, we do not believe that undue complexity will be removed if only one measurement attribute is retained. Indeed imposing fair value accounting for financial instruments which are carried at amortised cost at present would make the accounting for those instruments both less relevant and more difficult. Fair value accounting would in addition require substantial supplementary disclosures, as users of financial statements would require to be provided with the relevant information, i.e. information giving insight into the entity's future cash-flows. Heavy disclosure requirements lead to very costly financial reporting and signal that recognition and measurement requirements fail to provide appropriate reporting, when they are solely intended to support the understanding of the reported figures.

Hedge accounting has also been made much too difficult and too complex, and IAS 39 requirements are primarily anti-abuse driven, and are not designed to reflect the entity's risk management strategies. One of the main sources of complexity and lack of relevance in certain circumstances lies in the requirement to measure all derivatives used as hedging instruments at fair value, instead of having the hedging instrument be accounted for following the accounting for the hedged item.

We understand that requiring that all derivatives be measured at fair value is the rule that ensures that no risk exposure the entity faces can be excluded from recognition. We think that there is little chance that the Board will rethink the issue, because any change would lead to losing the practical benefit of having such a rule. For this reason, we consider this rule as a given. In our responses to some of the following questions the limitations or inconsistencies brought by such a rule will nevertheless be highlighted.

There is a variety of ways to make hedge accounting easier and more relevant, even if derivatives remain measured at fair value :

- to devote a standard to hedge accounting (this would avoid having detailed scope rules)
- to include in the scope of hedge accounting more non financial instruments (it could be derived from having a separate standard and a robust principle underpinning hedge accounting),
- to set principles for partial hedging (of both financial and non financial instruments)
- to review constraints imposed on forecast transactions eligible for cash flow hedge accounting
- to set sound principles for hedging of portfolios, instead of detailed rules for macro-hedging as we have at present.

Question 2

- ***Should the IASB consider intermediate approaches to address complexity arising from measurement and hedge accounting ? Why or why not ? If you believe that the IASB should not make any intermediate changes, please answer questions 5 and 6, and the questions set out in Section 3.***

We believe that the IASB should undertake a full revision of IAS 39, in order to set two new standards (one devoted to financial instruments, the other to hedge accounting). Devoting a standard to hedge accounting would allow the Board to set specific principles for hedge accounting and encompass all items that would qualify as hedged items (some non financial instruments, such as commodities, would naturally fall in the scope of such a standard)... We do not concur with the idea of "intermediate approaches", as we do not support the long term objective that the IASB is pursuing. We support the revision of IAS 39 in view of setting clear principle based and durable requirements. As indicated in response to question 1, IAS 39 complexity does not arise because of having two measurement attributes. It arises from the very detailed rule-approach to the accounting for financial instruments. In our view having two different measurement attributes is needed to ensure proper relevance and usefulness of the information presented.

- ***Do you agree with the criteria set out in paragraph 2.2 ? If not, what criteria would you use and why ?***

  No, we do not agree with all criteria set out in paragraph 2.2. We agree with criteria (a) and (d) which should prevail in any standard setting undertaking. We fully disagree with criterion Indeed accepting changes only if they lead to more fair value measurements has all chances of impairing the usefulness of the standard setting exercise. Any standard setting exercise and the revision of financial instrument accounting in particular should be based on the search for more usefulness of the information provided, without any pre-judgement made on what the final outcome should be. A measurement attribute is a means towards useful financial information, it cannot be an objective per se.

  We have also reservations about criterion c). Although we support all efforts made towards simplification and reduction of costs, we believe simplification should not be sought for per se, running the risk of being at the expense of relevance.

Question 3

Approach 1 is to amend the existing measurement requirements. How would you suggest existing measurement requirements should be amended ? How are your suggestions consistent with the criteria for any proposed intermediate changes as set out in paragraph 2.2 ?

We do not agree with the bases on which Approach 1 is presented. In our view, IAS 39 is built on two, not four, measurement attributes, i.e. fair value and amortised cost. These two measurement attributes are combined with two different presentations of changes in value in the income statement, some changes in value being recorded in P/L, some others being recorded in OCI with appropriate recycling later on.

In order to make the accounting standard for financial instruments more understandable and less complex, the IASB needs :

- to express when and why amortised cost should be used, and when and why fair value should be applied,
- to build a rationale to support having changes in value being recorded directly in P/L, or initially in OCI with later recycling to P/L.

As a result there is no magic simplification that would be obtained from the elimination of one category or the other. Different categories should be a result of the application of the principles set above. Whether there would be two, three or four categories in the end would not be a complexity, but the very understandable result of clearly stated principles applied to different economic circumstances.

In our view such an approach is the only one which meets criteria (a) and (c). Criterion (d) would also be met because such a robust approach can only mean significant improvements worth the standard setting and implementation changes. Only a careful analysis will decide whether such an approach would lead to more or less fair value with fair value changes in P/L.

Question 4

Approach 2 is to replace the existing measurement requirements with a fair value measurement principle with some optional exceptions.

We have set in response to question 3 the approach that the IASB should adopt in reviewing the accounting for financial instruments. This approach is not one which would set fair value as a measurement attribute by default. Preparers must be in a position to refer to clearly stated principles in order to select the relevant measurement attribute, without that measurement attribute being defined a priori. Our answers to the sub-questions below must be read and assessed on that basis.

In addition we do not believe that a standard on financial instruments can valuably ignore how financial instruments are managed. Instruments that can be settled without ever being traded are not, in our view, necessarily appropriately measured at fair value. The mere fact that they could be traded, as for example a portfolio of loans, should not trump the fact that they are managed to be settled at maturity. Measurement should depend on a combination of the characteristics of the instrument and the role assigned to it by management, if reporting financial instruments is due to have predictive content.

Giving to users insights in the way financial instruments are managed, with appropriate disclosures of the changes in management and the reasons for them, increases the relevance of financial reporting to them and serves relevance much better than any form of tainting rules.

(a) What restrictions would you suggest on the instruments eligible to be measured at something other than fair value ? How are your suggestions consistent with the criteria set out in paragraph 2.2 ?

As indicated above we do not believe that the IASB can meet the objective of a robust principle-based standard if measurement principles are not clearly set. Measurement principles should be defined in view of increasing financial reporting predictability. Amortised cost (including variations thereof), we believe, is, in most situations, the most appropriate measurement attribute when the instrument is expected to be settled in accordance with its contractual terms. Fair value should be required only for those instruments that cannot have another outcome than being traded, or where management expects to settle them through trading, or whose outcome depends on market changes solely (please refer to our answer to the DP Fair value measurement issued on May 3, 2007 for detailed explanations of these views). In addition, fair value as a measurement option remains necessary for as long as the mix measurement model is not adjusted to avoid potential accounting mismatches. Furthermore, the use of fair value must be considered carefully if it is to be applied in circumstances where there is no market for the instrument. Finally, as indicated earlier, measurement and presentation issues have to be discussed separately, in order to reach the most useful financial reporting.

(b) How should instruments that are not measured at fair value be measured ?

Instruments that are not measured at fair value should be measured at the best estimate of the future cash-inflows or –outflows that they embody, i.e. at an amount reflecting contractual terms, discounted at the original interest rate. This is we believe what amortised cost.

(c) ***When should impairment losses be recognised and how should the amount of impairment losses be measured ?***

Impairment losses should be based on expected losses (based on data relevant to the entity), not incurred losses only. Impairment losses on all types of instrument should be reversible without reference to whether the original cause of losses has itself Economic circumstances are the result of a combination of events and we do not believe that restrictions and constraints in this area bring increased quality in financial reporting.

(d) ***Where should unrealised gains and losses be recognised on instruments measured at fair value ? Why ? How are your suggestions consistent with the criteria set out in paragraph 2.2 ?***

ACTEO, AFEP & MEDEF believes that more relevant financial reporting would be provided if reporting gains and losses in P/L was based on a clear management approach, while other changes in value of assets and liabilities were presented as OCI items until it is appropriate to recycle them in P/L.

ACTEO, AFEP & MEDEF supports profit or loss as "a measure of the impact of transactions and other events on an entity's economic resources (creation or change in them), in accordance with the entity's business model and strategy". ACTEO, AFEP & MEDEF believes that profit or loss as described above should stem partly from the management approach that the IASB has been developing as part of its project on the presentation of financial statements.

For example, financial instruments used in trading activities should be measured at fair value with changes in value through P/L, because the change in net assets that result from those activities depend solely from the changes in fair value of those instruments. Conversely, changes in value of equity interests that are held for operating purposes (which today are classified as AFS), other than changes in value resulting from impairment losses, should not be presented in P/L (the entity is deriving economic benefits from them in synergy with other operating assets), whereas changes in value of equity interests that are held for investing purposes (which today are also classified as AFS) should be presented in P/L (the entity is deriving economic benefits from holding them solely for this purpose).

Our proposal is consistent with the criterion (a), (c) and (d). Our proposal leads to increase consistency between the entity's external and internal reporting and hence with segment reporting as required by IFRS 8. It therefore reduces the costs involved in the preparation of the accounts while increasing the internal cohesiveness of the information presented (primary statements and segment reports) and the information content for users (information having more predictive value). We have rejected criterion (b).

(e) ***Should reclassification be permitted ? What types of reclassifications should be permitted and how should they be accounted for ? How are your suggestions consistent with the criteria set out in paragraph 2.2 ?***

Reclassifications should be permitted, with appropriate disclosures, explaining the reasons and the impact of the change in the management of the assets and liabilities. Internal control requirements command that a change in management objective be fully tracked and explained internally. As a result, disclosures should not appear as too heavy a burden for preparers. Such disclosures would give a valuable insight to users into the way financial instruments are being managed. Furthermore internal control and disclosures constraints would prevent any form of potential earnings management.

Question 5

Approach 3 sets out possible simplifications of hedge accounting.

(a) *Should hedge accounting be eliminated ? Why or why not ?*

Hedge accounting should not be eliminated, it should be expanded and made easier. Hedging strategies do play an important role (a vital role for financial institutions) and have an impact on entities' financial statements which should be made apparent and very understandable to users of financial statements. To achieve that objective hedge accounting must be such that all hedging activities of an entity can be reflected in its financial statements, without generating too heavy an administrative burden or unnecessary constraints. Presentation must be such that users are able to understand the extent of the entity's hedging strategies. P/L must reflect the economic result of those strategies.

(b) *Should fair value hedge accounting be replaced ? Approach 3 sets out three possible approaches to replacing fair value hedge accounting.*

a. *Which method(s) should the IASB consider, and why ?*

ACTEO, AFEP & MEDEF observes that the easiest approach to access the benefits listed in paragraph 2.46 of the DP would be to accept to limit fair value accounting to those derivatives – or portions of them – which are not effective hedges for other instruments. However as indicated in our answer to question 4 above, we do not expect the IASB to go that most effective route.

As a result we believe existing approaches should be retained. Indeed earnings are not the only indicator that has to remain fully understandable and meaningful. Changes in net assets need to be easily understandable as well. This is concern for all entities, and primarily for financial institutions. Entities can adopt a fully cash flow hedge approach if and when using this approach would not blur the understanding of changes in their net assets.

To ease this understanding, we believe that the IASB should as part of its project on the presentation of financial statements, revisit the presentation fof the statement of changes in equity. We strongly urge the Board to fully discuss and determine a robust principle to determine what should be included in P/L and what should be reported as OCI. In addition, we believe that P/L and OCI flows should be presented in the statement of changes in equity as separate components of comprehensive income for the period.

b. *Are there any other methods not discussed that should be considered by the IASB ? If so, what are they and how are they consistent with the criteria set out in paragraph 2.2 ? If you suggest changing measurement requirements under approach 1 or approach 2, please ensure that your comments are consistent with your suggested approach to changing measurement requirements.*

We do not have any other method to discuss. We believe that setting up robust hedging principles would help far better than to imagine any new or adjusted existing approach.

Question 6

Section 2 also discusses how the existing hedge accounting models might be simplified. At present, there are several restrictions in the existing hedge accounting models to maintain discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings. This section also explains why those restrictions are required.

As we have already indicated, hedge accounting must be available to adequately reflect the economic impact of the entity's hedging strategies. Hedging strategies have a significant impact on an entity's future cash-flows. As a result, they need to be reflected fully and comprehensively in an entity's financial statements. Hedge accounting requirements must fit closely to the entity's risk management as described in the entity's management commentary and IFRS 7 disclosures. Designation and de-designation, disposal of hedging instruments, replacement of hedging instruments are necessary to best serve the hedging strategy efficiency of the entity. As a result, we believe :

- documentation should be required in the form and extent necessary for sound internal control and management ; as such it cannot be regarded as an "accounting" burden ; as a result, and provided that all ineffectiveness impacts P/L, there is no need to disqualify hedging relationships.
- sound hedge accounting requirements should avoid :
  - measuring on different bases identical instruments (in nature and economic role) because one is hedged and the other not, (we are aware that having all hedging derivatives at fair value contradicts this desirable objective) ;
  - making exceptions to measurement principles (please refer to our answer to question 4),
  - creating "ineffectiveness" because changes in value which do not belong to the hedging strategy are captured in the measurement requirements,
  - bringing restrictions that would forbid faithful reporting of the entity's hedging strategy. Hedging strategies include hedging transactions for commodities, portions of an instrument, portfolio hedging, future cash-in and –outflows (based on budgets).

(a) What suggestions would you make to the IASB regarding how the existing hedge accounting models could be simplified ?

(b) Would your suggestions include restrictions that exist today ? If not, why are those restrictions unnecessary ?

Section 2 fails in our view to be convincing and no improvement can be made as long as the IASB gives precedence to anti-abuse requirements over the need to faithfully and comprehensively reflect the entity's hedging strategies. The IASB proposes various alternatives, which are possible adjustments, not an in-depth revision, of the existing hedge accounting requirements. All suggestions are based on a different balance between restrictions on one hand, complexity on the other. There is no room for improvement on such bases, in our view. The only possible answer for us is to state that there are today too many restrictions and that no supplementary restriction can be seen appropriate.

(c) ***Existing hedge accounting requirements could be simplified if partial hedges were not permitted. Should partial hedges be permitted and, if so, why ? Please also explain why you believe the benefits of allowing partial hedges justify the complexity ?***

If hedge accounting is to reflect faithfully hedging strategies, and partial hedges belong to those strategies, partial hedges need to be adequately accounted for. As already indicated in our answer to the IAS 39 proposed amendments on risks eligible for hedge accounting, we believe that the IASB needs to rely on a firm principle and consider all hedged items, whether financial or non-financial instruments.

(d) ***What other comments or suggestions do you have with regard to how hedge accounting might be simplified while maintaining discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings ?***

Please refer above to our introductory comments in response to question 6.

Question 7

Do you have any other intermediate approaches for the IASB to consider other than those set out in Section 2 ? If so, what are they and why should the IASB consider them ?

Please refer above to our introductory comments in response to question 6.

Question 8

To reduce today's measurement-related problems, Section 3 suggests that the long-term solution is to use a single method to measure all types of financial instruments within the scope of a standard for financial instruments.

Do you believe that using a single method to measure all types of financial instruments within the scope of a standard for financial instruments is appropriate ? Why or why not ? If you do not believe that all types of financial instruments should be measured using only one method in the long term, is there another approach to address measurement-related problems in the long term ? If so, what is it ?

No we do not. As explained above we believe that fair value is the appropriate measurement in some circumstances and not in others. We therefore believe that the IASB needs to express when fair value is appropriate and when it is not. In particular we believe that fair value is inappropriate in most situations where the outcome of the instrument is not dependent on market variations or when there is no market data available.

Question 9

Part A of Section 3 suggests that fair value seems to be the only measurement attribute that is approapriate for all types of financial instruments within the scope of a standard for financial instruments.

When considering what measurement basis should apply, we believe that the IASB should assess the needs of financial statements users in relation to the objective of financial reporting, i.e. help potential and existing capital providers to assess the entity's future cash-flows. As a result we believe that whether one or more measurement attributes are necessary to best depict the entity's financial position has to be carefully considered before making any proposal.

We observe that the IASB fails to do so and sets as a starting point that there should be one and only one measurement attribute. We therefore conclude that the IASB's proposals are flawed. In addition we note that the IASB deals with cost-based measurement attributes as if those attributes left no room for revaluation. Cost-based measurement attributes form a measurement basis that best sticks to the contractual and other economic terms of a financial instrument. When those terms are variable (including the credit standing of entity's debtors), revaluation appropriately occurs.

(a) *Do you believe that fair value is the only measurement attribute that is appropriate for all types of financial instruments within the scope of a standard for financial instruments ?*

Please refer to our answers to questions 3 and 4.

(b) *If not, what measurement attributes other than fair value is appropriate for all types of financial instruments within the scope of a standard for financial instruments ? Why do you think that measurement attribute is appropriate for all types of financial instruments within the scope of a standard for financial instruments ? Does that measurement attribute reduce today's measurement-related complexity and provide users with information that is necessary to assess the cash flow prospects for all types of financial instruments ?*

As already indicated, we do not believe that financial instruments can all be appropriately measured using one measurement attribute only.

Question 10

Part B of Section 3 sets out concerns about fair value measurement of financial instruments. Are there any significant concerns about fair value measurement of financial instruments other than those identified in Section 3 ? If so, what are they and why are they matters for concern ?

The most significant concerns that arise about fair value measurement are included in part B, namely the potential lack of relevance and lack of reliability. However we believe that these concerns are underestimated and too easily dismissed.

Fair value measurement causes lack of relevance for all instruments that can be held until settlement and of which outcome is not subject to market variations. In our view **only changes in the circumstances and market inputs that have an influence on the outcome of an instrument should trigger revaluation of the instrument**. Whenever management's decisions have an impact on the value of an instrument, the instrument should be measured in accordance with management's decisions as they stand at the balance sheet date. We believe that users would have much greater insight into an entity's future cash-flows if the combination of presentation (different classes of instruments on the face of the balance sheet) and measurement allowed clear reporting of how financial instruments are being managed. Changes from one classification to another would trigger explanatory disclosures of management decisions which would enhance users' understanding and would be far more efficient for financial reporting than any form of tainting rules. This in our view would best serve the stewardship objective of financial reporting. We note that as long as management's decisions have not changed (indeed plans may change for good reasons that users are interested to know) we disagree that financial reporting shows artificial stability in earnings.

As the IASB puts it in its support for fair value measurement (3.52), accounting estimates at balance sheet date reflect the circumstances at that date, including we believe management's decisions as they stand at that date, and do not aim at forecast accuracy. Fair value estimates provided as disclosures allow users to assess management's decisions to date to hold instruments and not trade them. We therefore believe that our proposals best fulfil the objective set in 3.45.

We do believe that generating unrealised gains and losses from period to period, all of which must reverse upon settlement if the instrument is settled according to its contractual terms, not only is irrelevant, but also impairs the understandability of financial reporting. Artificial volatility may indeed be created and should be avoided. We note that the IASB acknowledges this weakness in 3.68 – 3.70. Paragraph 3.71 suggests that lack of relevance is the price to pay for having one single measurement attribute, a sign, we believe, that the IASB's approach is flawed.

We also believe that fair value measurement is not relevant when there is no market or no possibility for the entity to trade the financial asset or liability, as it does not bear any form of predictability of future cash-flows. In 3.52 – 3.67, the IASB argues against potential lack of objectivity and reliability. There is no word about relevance and there again we believe that the Board's approach is flawed.

We are also struck by the arguments put in favour of reflecting the entity's credit spread in the valuation of liabilities. We adhere to financial reporting being set from the reporting entity's perspective. We therefore believe that referring to the perspective of the holder of the asset is not relevant (3.74 a) and d)). Furthermore we note that the credit spread of an entity has an influence on the proceeds an entity receives upon issuance of borrowings, whereas it has none on the subsequent amounts an entity has to repay. We therefore disagree with par.3.74 b), in which the Board considers that credit risk should also be part of the subsequent fair value measurement of a financial liability. We therefore remain fully unconvinced by the Board's arguments.

Finally the IASB interpret users' needs for disaggregation of fair value changes as the sign that users support fair value measurement of financial assets and liabilities. Our own experience indicates (and the IASB has had similar reports by users in the past) that users are mostly interested by the contractual terms of assets and liabilities (because of their high predictive content). Disaggregation of fair value changes is the ability for users to trace back the information they really need.

Question 11

Part C of Section 3 identifies four issues that the IASB needs to resolve before proposing fair value measurement as a general requirement for all types of financial instruments within the scope of a standard for financial instruments.

(a) Are there other issues that you believe the IASB should address before proposing a general fair value measurement requirement for financial instruments ? If so, what are they ? How should the IASB address them ?

(b) Are there any issues identified in part C of Section 3 that do not have to be resolved before proposing a general fair value measurement requirement ? IF so, what are they and why do they not need to be resolved before proposing fair value as a general measurement requirement ?

Overall we agree with the issues listed in part C of section 3. However we believe that the main issue the IASB should solve before undertaking IAS 39 revision is to determine robust measurement principles defining when fair value is relevant for the reporting of financial instruments.

Defining what net income should encompass is also a key question to solve beforehand (please refer to our answer to question 4 d)). We have also identified other presentation issues (please refer to our answer to question 10).

Question 12

Do you have any other comments for the IASB on how it could improve and simplify the accounting for financial instruments ?

In our answers to preceding questions we have already formulated suggestions to that purpose.