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E-mail: CommentLetters@iasb.org.uk

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Dear Ms Thompson,

Amendments to IAS39 Financial Instruments – The Fair Value Option

The Chartered Institute of Management Accountants (CIMA) is a global professional body representing accountants in business. CIMA represents over 62,000 members and 81,000 students in 154 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of IFRS.

We are pleased to have the opportunity to comment on this exposure draft. In our view, if the proposal is considered on its merits as a change to accounting standards then it does not improve IAS39. It should be withdrawn. Our reasons for reaching this assessment are given in response to Question 1 below.

We recognise that this further amendment to IAS39 is proposed in an attempt to get wider acceptance of the IASB's position on financial instruments especially within the banking community. We would argue that accepting such compromises could reduce IASB's credibility and open the door to many future political compromises, which would weaken and ultimately destroy the value of global accounting standards.

Nevertheless, if acceptance of this amendment were the only way in which a consensus can be reached on IAS39 then we would reluctantly take the pragmatic view and accept it on the basis that a more far-reaching review of IAS39 is scheduled in the near future.

We attach answers to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us. A hard copy of this email will be put in the post to you today.

Yours sincerely

Nick Topazio ***Jim Metcalf***

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Responses to specific questions raised in the invitation to comment

Question 1

Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?

We do not agree with the proposals, the exposure draft should be withdrawn as:

- it is confusing; 'verifiability' is a new concept in standard setting, with no 'case law' history to provide guidance;

- it is inconsistent with other accounting standards, which not only permit but even require the inclusion of unverifiable fair values The amendment indicates that 'verifiability' should be seen as a stricter test than "reliably measured'. To us this indicates the use of actual market transactions to verify the fair value. This strict test is inconsistent with the application of the fair value concept in other standards. For instance IAS16 Property, Plant & Equipment requires the determination of 'residual fair value' which, in the case of some specialised pieces of equipment, is often not 'verifiable'. This confusion could lead to inconsistent treatment of similar transactions.

- the limitation on the use of fair value runs counter to the trend in accounting standards which is to use fair value increasingly;

- regulators should address their concerns by regulation, rather than by influencing accounting standards; and

- standards should not be changed so frequently unless absolutely essential.

We would prefer that potential changes to IAS 39 are considered within a comprehensive review of the accounting for financial instruments that should follow an introduction of the complete suite of international standards in Europe in 2005. Nevertheless, if acceptance of this amendment were the only way in which a consensus can be reached on IAS39 then we would reluctantly take the pragmatic view and accept it on the basis that a more far-reaching review of IAS39 is scheduled in the near future.

Question 2

Are you aware of any financial instruments to which entities are applying, or are intending to apply, the fair value option that would not be eligible for the option if it were revised as set out in this Exposure Draft? If so:

a) ***Please give details of the instrument(s) and why it (they) would not be eligible.***

b) ***Is the fair value of the instrument(s) verifiable (see paragraph 48B) and if not, why not?***

c) ***How would applying the fair value option to the instrument(s) simplify the practical application of IAS 39?***

We are not aware of such transactions.

CIMA

Question 3

Do the proposals contained in this Exposure Draft appropriately limit the use of the fair value option so as to address adequately the concerns set out in paragraph BC9? If not, how would you further limit the use of the option and why?

Our comments in response to question 1 in relation to any limit on the use of fair value are also relevant to this question. In respect to the contents of BC9 we respond as follows:

a) other international standards already require the use of fair value in instances when a strict verifiability test is not possible. We are not convinced that the measurement of fair values of financial instruments is so different so as to require limitations;

b) we are not convinced that potential volatility is a good enough reason to limit the use of fair value, in fact it is inherent to the concept of fair value;

c) we do not believe that this risk will materialise if the standard is properly drawn up.

Question 4

Paragraph 9(b)(i) proposes that the fair value option could be used for a financial asset or financial liability that contains one or more embedded derivatives, whether or not paragraph 11 of IAS 39 requires the embedded derivative to be separated. The Board proposes this category for the reasons set out in paragraphs BC6 (a) and BC16-BC18 of the Basis for Conclusions on this Exposure Draft. However, the Board recognises that a substantial number of financial assets and financial liabilities contain embedded derivatives and, accordingly, a substantial number of financial assets and financial liabilities would qualify for the fair value option under this proposal.

Is the proposal in paragraph 9(b)(i) appropriate? If not, should this category be limited to a financial asset or financial liability containing one or more embedded derivatives that paragraph 11 of IAS 39 requires to be separated?

If one accepts the need for a change then the proposal is appropriate, however we question the need for this amendment.

Question 5 Transition requirements

Paragraph 103A proposes that an entity that adopts early the December 2003 version of IAS 39 may change the financial assets and financial liabilities designated as at fair value through profit or loss from the beginning of the first period for which it adopts the amendments in this Exposure Draft. It also proposes that in the case of a financial asset or financial liability that was previously designated as at fair value through profit or loss but is no longer so designated:

a) if the financial asset or financial liability is subsequently measured at cost or amortized cost, its fair value at the beginning of the period for which it ceases to be designated as at fair value through profit or loss is deemed to be its cost or amortized cost.

b) ***if the financial asset is subsequently classified as available for sale, any amounts previously recognised in profit or loss shall not be reclassified into the separate component of equity in which gains and losses on available-for-sale assets are recognised.***

However, in the case of a financial asset or financial liability that was not previously designated as at fair value through profit or loss, the entity shall restate the financial asset or financial liability using the new designation in the comparative financial statements.

Finally, this paragraph proposes that the entity shall disclose:

a) ***for financial assets and financial liabilities newly designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the previous financial statements.***

b) ***for financial assets and financial liabilities no longer designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the current financial statements.***

Are these proposed transitional requirements appropriate? If not, what changes do you propose and why? Specifically, should all changes to the measurement basis of a financial asset or financial liability that result from adopting the amendments proposed in this Exposure Draft be applied retrospectively by restating the comparative financial statements?

If one accepts the need for a change then the proposed transitional requirements are appropriate, however we question the need for this amendment.

Question 6

Do you have any other comments on the proposals?

No