

CL 8

ED of proposed amendments to the fair value option : comments of the Belgian banks, annex

Question 1:

The Belgian banks do not agree with the limitation of the fair value option.

As long as there is no real alternative for macro-hedging, this option is indispensable for reducing the volatility affecting the accounts. The use of an unchanged fair value option is necessary in order to obtain a position which is fully covered from an economic point of view, and to provide a natural coverage of the balance sheet. As for the latter, it is indeed impossible to say which hedging instruments exactly correspond with specific balance sheet items.

There still must be a possibility to include all financial liabilities as well as all loans and receivables which do not comply with the conditions laid down in paragraph 9b, into the fair value portfolio.

Furthermore, we would like to point out that together with the new test for checking fair values (which is different from the 'reliably measured' test), a hierarchy of fair values has been introduced into the standard, depending on the classification of the instrument. The result of this is a lack of consistency within the standard, all the more so because inclusion into the fair value portfolio is optional. This causes operational problems regarding implementation for the institutions which must apply the standard. Moreover, some banks fear that this new test could put a brake on the use of internal models.

Consequently, the Belgian banks fully support the alternative views put forward by a number of Board Members.

Question 2: The Belgian banks ask for the possibility to include all financial liabilities as well as all loans and receivables into the fair value portfolio, for the same reasons as those mentioned in the answer to question 1.

Question 3: The proposals of the IASB Board will lead to increased volatility of the accounts. So, these proposals do not provide a suitable solution.

Question 4: Regardless of the general remarks concerning the previous questions, the proposal mentioned in paragraph 9(b)(i) seems to be positive, because it allows to include certain financial structures with an embedded option into the fifth portfolio (e.g. structured finance). However, one should avoid any further kind of limitation.

Question 5: No comments.

Question 6 : No comments.