
DEUTSCHES AKTIENINSTITUT

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Sir David Tweedie
Chairman of the
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United Kingdom

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Prof. Dr. Rüdiger von Rosen
(geschäftsführend)

May 8th 2003

Financial Instruments Proposed Amendments to IAS 39

Dear Sir David,

Please find attached a comment letter to Commissioner Bolkestein with respect to IAS 39 jointly prepared by several European associations representing the interests of listed companies in the European Union.

We have examined the drafts in depth in the light of our member's experience with the existing standards. We welcome the fact that the IASB has used the severe and broadly based criticism of the existing accounting standards for financial instruments as an opportunity for a review. Whilst we respect the effort made to improve the requirements in IAS 39, we express dissenting views on certain proposals in the Exposure Draft.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Yours sincerely,



Prof. Dr. Rüdiger von Rosen

Encl.



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Union of Companies
Athens - Stock Exchange



The Quoted
Companies Alliance



SEISET Association



6 May 2003

Dear Mr. Bolkestein,

European listed companies will have to apply international standards for consolidated accounts by 2005. While we are welcoming the global approach of these standards as leading to greater transparency, we are writing to you today to express a common and extremely serious concern about the application of particular standards. Indeed, as associations representing the interests of listed companies in the EU, we strongly oppose IAS 39 for the following reasons:

The IAS accounting principles are increasingly based on a systematic evaluation of the balance sheet at its immediate market value, which has been renamed "fair market value" or simply "fair value" to make any opposition appear disreputable.

Despite the postponement of the project "full fair market value", the IASB is pursuing its aim of systematically valuing assets and liabilities at their market value, thereby introducing significant volatility into either the results or equity, regardless of the reason why the enterprise holds the assets and liabilities in question.

It is essential to keep a very close watch on the extent to which fair value is applied (nature of the activities and instruments, accounting principles) on both sides of the Atlantic, so that the IASB treatments do not put European companies at a harmful competitive disadvantage.

IAS 39, the standard which is intended to cover recognition and measurement of financial instruments, is the first accounting standard to deal with all financial instruments as a whole. The part that covers derivative instruments reproduces the principles and detailed rules set out in American standard FAS 133 which is however less exigent with regard to the mode of enforcement creating therefore a situation of unfair competition.

Mr. Frits BOLKESTEIN
Member of the Commission
European Commission
200, rue de la Loi
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Implementation of this IAS 39 standard raises many difficulties for all European enterprises and not only for credit institutions. It is an illustration of a process of standardisation based more on detailed rules than on principles. It creates a pro-cyclical and unsettling system which contributes to the volatility and instability of markets at the very time when we are searching for transparency and stability.

The IAS 39 standard requires changes in the value of derivative instruments intended to hedge future cash flows to be accounted for as movements in the equity of an enterprise, for example, hedges against exchange rate risk on the future sales of an industrial company, or hedges to protect the future margins of a credit institution which seems not very appropriate in such a period of declining credibility of the market. The result of this is that it creates volatility in enterprises' equity.

In the case of equity securities and other securities from investment portfolio activities, the standard requires a systematic valuation method: Fair Market Value at the last known price in the case of listed securities, Fair Value resulting from a systematic revaluation in the case of unlisted securities. Valuation differences are booked to equity. The result is that the balance sheet reflects the creation or destruction of value resulting from momentary fluctuations in the value of these portfolios in the case of listed instruments, or changes in intrinsic value in the case of unlisted instruments, even if the enterprise is intending to hold them over a long period. This gives rise to fluctuations which may be very significant over a short period, based on parameters which are usually exogenous to the asset being valued.

Recent events in the stock markets have shown how unstable market values can be. This type of accounting valuation would therefore have the effect of introducing the same instability into balance sheet valuations, following the evolution of the economic situation: changes in accounting valuations would take place on a large scale during periods of stock market euphoria or, on the contrary, at moments of panic when the markets are in crisis. This would give an obviously incorrect picture of the value of the enterprise.

The standard also states that a depreciation which is judged to be definitive must give rise to a revaluation of the participating interest, and the write-down must be charged to the profit and loss account but cannot be written back if the situation improves.

The Exposure Draft published in June 2002 amending IAS 39 also introduced the principle of making provisions for unrecognised counterparty credit risks. This rule applies to all industrial companies with branches providing loans to customers. The underlying principles intended to reassess the parameters for the future evolution of risk on the basis of its recent evolution, introduce a valuation of counterparty risk before it has even been proven to exist.

These principles and rules are not satisfactory. They do not take into account the intentions of the enterprise in its day-to-day management. They constitute a break with the principle of prudence. They actually make the results of the enterprise subject to the ups and downs of the economy.

Since these issues of principle and method in the valuation of financial instruments are so important, a profound amendment of the IAS39 standard is required. The aim should be to allow accounting principles to take precedence over detailed rules of application, in accordance with the traditions and regulations that currently exist in Europe. The principles set out above are vital in order to ensure the stability of profit and loss accounts and balance sheets and to prevent further amplification of the effects of financial bubbles and crises.

Therefore we urge the European Commission not to adopt IAS 39 ("*Financial Instruments: Recognition and Measurement*") until the necessary amendments are made in this standard. In order to guarantee the lasting success of IAS we believe a major revision of this standard is indeed totally indispensable and a compromise solution has to be found, based at least on the following points:

The principle of hedging a net position, an interest rate or an exchange rate risk, which is essential to the day-to-day management of risks (macro-hedging),

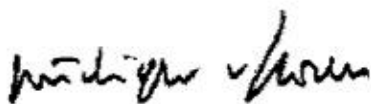
The recognition in the accounts of the procedures for the centralisation and hedging of risks within specialised entities, an obvious fact from which a standard cannot detract (hedging through internal contracts),

A unified system of treatment, by applying the classification and valuation rules of the hedged items to the hedging instruments,

The principle of prudence, which is applied today in the valuation of equity securities on which provisions are made where necessary, without ever accounting for the latent capital gains.

We will be happy to contribute to this issue which is vital for European listed companies and thank you for your consideration of our views!

Yours sincerely,



Prof. Rüdiger von ROSEN
Managing Director
DEUTSCHES AKTIENINSTITUT



Bertrand COLLOMB
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Dr. Hellmut LONGIN
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Edouard de ROYERE
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Ο Πρόεδρος του Δ.Σ.
Εταιρειών Συμμετοχών



George STAMATIOU
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