

Douglas J Flint  
*Group Finance Director*

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Ms Sandra Thompson  
Senior Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Dear Sandra

**IASB's Exposure Draft of proposed amendments to IAS 39 'Financial Instruments: Recognition and Measurement' – the Fair Value Option**

I welcome the invitation to comment on the above-mentioned Exposure Draft. My views are outlined below.

I disagree with the proposal to restrict the use of the fair value option by limiting the types of financial assets and financial liabilities to which it may be applied and by requiring that the option be applied only to financial assets and financial liabilities whose fair value is verifiable. The fair value option as currently drafted has always been regarded as a helpful mechanism to overcome partially the burdensome requirements of sections of IAS 39, in particular with respect to hedge accounting. In addition, in certain instances it facilitates the use of a measurement basis that is more in accordance with commercial substance.

In my view, it is both unnecessary and unhelpful to impose restrictions on its use. First, the Basis for Conclusions implies that the restrictions have been introduced mainly in response to the concerns of banking, securities and insurance regulators that the fair value option might be used inappropriately. This is at odds with the IASB's stated position on IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' that an accounting standard should not be industry-specific.

Secondly, the restrictions introduce an alternative set of hedging rules in place of a flexible option that I believe entities intended to implement in a responsible manner. Governance and disclosure would ensure that use of the fair value option was not abused. Restricting the option to prescribed circumstances creates a second layer of hedge accounting requirements, bringing IAS 39's hedge accounting provisions closer to a set of rules devoid of the underlying principles that would ensure that financial statements report the economic reality of an entity's financial performance and position.

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From a bank's perspective, the restrictions reduce flexibility in application of the standard and negate much of the benefit that the option was originally intended to confer, for example, smoothing the transfer to IFRS by enabling economic hedges to be reflected in the accounts.

Furthermore, it would be undesirable to have to commit to a restrictive list of transaction types when as a major bank we are still considering how the revised IAS 39 can be applied.

Yours sincerely

A handwritten signature in black ink, appearing to read "Taylor" followed by a stylized surname, with a large, sweeping flourish underneath.