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14 November 2003

Sir David Tweedie
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: CommentLetters@iasb.org.uk

RE: Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement—*Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*

Dear Sir David:

The Global Financial Reporting Advocacy Committee (GFRAC) of the Association for Investment Management and Research (AIMR)¹ respectfully submits this comment letter regarding the International Accounting Standards Board's (IASB) Exposure Draft *Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*. The GFRAC is responsible for responding to new financial reporting and other corporate disclosure initiatives affecting global markets, and investment professionals and investors who participate in those markets. The Committee also is charged with maintaining liaison with standard-setters, regulators, and other bodies responsible for promulgating reporting and disclosure standards.

General Comments

We commend the IASB for their diligent efforts to create a comprehensive set of high-quality financial reporting and disclosure standards. We believe that these efforts are critical to enhancing transparency and achieving the efficient and effective functioning of global financial markets. These Standards will be applied not only by companies in the European Union, but by those operating in every sector of the world, bringing consistency and comparability of financial reporting, and lower transaction costs for all market participants. Consequently, we support the Board's efforts and believe that this process should be allowed to continue as rapidly as is feasible.

¹With headquarters in Charlottesville, VA, and regional office in Hong Kong and London, the Association for Investment Management and Research® is a non-profit professional organization of over 67,000 financial analysts, portfolio managers, and other investment professionals in 116 countries of which 56,000 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 127 affiliated societies and chapters in 46 countries.

On a number of occasions, the Committee has expressed to the Board its strongly-held position that the only appropriate financial reporting method for financial instruments, including derivatives, is full fair value reporting of assets and liabilities in the balance sheet, with changes in the fair values of the instruments recorded in the income statement as incurred. Our comments regarding this Exposure Draft should be considered in light of this position.

The underlying Standard which the proposal would amend, IAS 39, does not mandate full fair value reporting of financial instruments. However, IAS 39 represents a significant improvement over current financial reporting for financial instruments. The recognition and disclosure provisions of the Standard provide information about companies' positions in financial instruments, and their profitability and risk exposures, that will enhance users' ability to understand the companies' operations and the implications of those operations.

For this reason and because the Committee agrees with the Board, and with the view expressed by European regulators, that it is essential that a complete set of universally applicable financial standards be promulgated in Phase I for application by all covered entities in 2005, we can support the amendments to IAS 39 in this Exposure Draft. We do so in the full belief that this is *an interim measure* that will help to achieve this objective and that the provisions may help to speed the Board's efforts to achieve a full fair value standard. That is, we expect that in Phase II the Board will promulgate such a fair value standard for all financial instruments and financial contracts which will apply to all entities holding or issuing the instruments.

Finally, we believe also that *all* of the disclosures currently mandated in both this Exposure Draft and in IAS 39 must continue to be required in the final Standard. These disclosures are essential to investors who need to be able to analyze and understand the company's operations and its risk exposures, and to make adjustments to the financial statements.

Conclusion

The GFRAC appreciates the opportunity to submit its views on this Exposure Draft for the Board's consideration and encourages the Board to continue its efforts to achieve a single high-quality set of financial reporting and disclosure standards benefiting all users of financial statements worldwide.

If the Board should have any questions or require further elaboration of our views, please do not hesitate to contact Patricia McConnell (001.212.272.4193 or pmcconnell@bear.com) or Patricia Walters (001.434.951.5315 or patricia.walters@aimr.org).

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Sincerely,

/s/ Patricia McConnell
Patricia A. McConnell, CPA
Chair, Global Financial Reporting Advocacy Committee

/s/ Patricia Walters
Patricia Doran Walters, Ph.D, CFA
Senior Vice President, AIMR Professional Standards and Advocacy

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