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Sandra Thompson
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International Accounting Standards Board
30 Cannon Street
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4 October 2004

Dear Sandra

Transition and Initial Recognition of Financial Assets and Liabilities

1. With a membership of in excess of 37,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies that form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to issuing bodies such as yourselves.

2. We are pleased to have the opportunity to comment on the IASB's proposals in relation to this issue.

Overall comments

3. We agree that it is appropriate to allow entities to adopt a transitional approach with respect paragraph AG76 due to the difficulties in retrospective application of the requirements. However, we do not agree that the transition date should be based on US reporting requirements since there is no logic for international standards to use such an arbitrary date. Rather, we suggest that paragraph 107A should be amended to say something like, for a company with a December year end, "Notwithstanding paragraph 104, an entity may apply the requirements in the last sentence of paragraph AG76 prospectively to transactions entered into on or after 1 January 2004, for those entities applying IAS 39 from that date and 1 January 2005, for those entities applying IAS 39 from that date. In addition (as per IFRS 1 derecognition provisions) the ability to restate should apply in full to any earlier date." This will allow US registrants to conform to their previous US restatement and provide more logical dates for other IFRS preparers.

Detailed comments

Question 1 – Do you agree with the proposals in this Exposure Draft? If not, why not? What changes to you propose and why?

4. As set out in paragraph 3 above, along with our proposed changes, we agree that an amendment to IAS 39 should be made, but we do not agree with using the US reporting date.

Question 2 – Do the proposals contained in this Exposure Draft appropriately address the concerns set out in paragraph 5 of the Background on this Exposure Draft? If not, why not and how would you address those concerns.

5. As set out in paragraph 3 above, along with our proposed changes, we agree that an amendment to IAS 39 should be made, but we do not agree with using the US reporting date.

Question 3 – Do you have any other comments on the proposals?

6. While it is useful to clarify the treatment of profits on "day 2", we are not certain that the amendment achieves either clarity or consistency with US GAAP. Is it intended that the gain can only be recognised when the fair value is evidenced by other observable current market transactions or can be based on a valuation technique whose variables include only data from observable markets? Or is it intended that the gain can be recognised on a straight-line basis over time? We note that developing practice in the US is to recognise on a straight-line basis over time.

We hope that you have found our comments helpful. Should you wish to discuss them further please contact me at the address above or on 020 7466 2686.

Yours sincerely

Kathryn Cearns
Chairman
LSCA Technical Committee