

11 October, 2004

**CL 17**

Sandra Thompson  
Senior Project Manager  
30 Cannon Street  
London EC4M 6XH  
UK

Dear Sandra,

**Re: Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments:  
Recognition and Measurement: Transition and Initial Recognition of Financial  
Assets and Financial Liabilities**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the Exposure Draft of proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Transition and Initial Recognition of Financial Assets and Financial Liabilities.

This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive amendments on the issues.

If you would like further clarification of the points raised in this letter, Paul Rutteman or myself would be happy to discuss these further with you.

Yours sincerely,

Stig Enevoldsen  
**EFRAG, Chairman**

**Question 1**

*Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?*

**EFRAG response:**

We agree with the proposals.

*Transitional requirements*

Generally, we believe that full retrospective application gives a better basis for comparing entities through time. At the same time we appreciate that the option to apply the 'day 1' gain or loss recognition requirements in paragraph AG76 prospectively to transactions entered into after 25 October 2002 will allow entities to eliminate the difference in transitional provisions for otherwise identical measurement requirements in IAS 39 and US GAAP and will simplify transitional requirements for entities in general. On this basis, we agree with the amendment.

*'Day 2' measurement*

The exposure draft proposes a clarification that there must be a change in a factor that market participants would consider in setting a price in order to recognize any gains or losses on subsequent measurement. We share the reasoning in paragraph BC16 that subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses should be consistent with the requirements in IAS 39. Therefore, we agree with this proposal.

However we note that the 'day 1' gain or loss recognition requirements in AG76 continue to be controversial. These requirements affect the pattern in which profits are recognized on transactions. In particular, they result in profits being recognized on some transactions later than at present. Although we understand why the IASB has reached these conclusions, we believe the underlying issues have wider implications and need to be considered in a wider context.

We therefore hope that the IASB will look again at this part of IAS 39 in the light of the conclusions it reaches in its revenue recognition and accounting measurement projects. We however urge the IASB not to make any further changes to IAS 39 at this time to allow entities that will be adopting IFRS in 2005 to have a stable platform.

**Question 2****EFRAG response:**

*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?*

The transitional amendment provides some relief for entities from full retrospective application. However, this amendment may not necessarily be helpful to first time adopters who do not provide reconciliations to US GAAP.

In this respect, we have considered whether it would be a better solution to allow entities to apply the 'day 1' gain or loss recognition requirements either from 25 October 2002 or from 1 January 2005 prospectively to take into account the concerns of entities in general.

However, we considered that an amendment to allow a full prospective application might require re-exposure, for which this is not the right timing. Therefore we decided not to propose this alternative to the IASB.

### **Question 3**

#### **EFRAG response:**

*Do you have any other comments on the proposals?*

No