Crédit Mutuel

CL 108

Confédération Nationale

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Sir David Tweedie
International Accounting Standards Board
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Subject : Comments on the Exposure Draft of proposed amendments to IAS 39 Financial Instruments : Recognition and Measurement – The Fair Value Option

Dear Sir,

We are pleased to provide you with our comments on the above mentioned Exposure Draft. You will find in the enclosed document, our answers to the questions where applicable.

Should you have any additional question, do not hesitate to contacting us.

Best regards,

Ferrand

Isabelle FERRAND

Subject : Comments on the Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments : Recognition and Measurement – The Fair Value Option

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

Generally speaking we agree with the fair value option propositions.

The limits to the use of fair value option are not necessary. The fair value measurement of any financial asset or liability will not result in an increased volatility in earnings and unreliable financial reporting. In fact, we think that the contrary would occur in practice. Thanks to the use of the fair value option, one should encounter less volatility in earnings.

More specifically, current asymmetric accounting (ie financial instruments measured at cost matched with financial instruments measured at fair value) is certainly a source to great volatility which could be reduced by allowing entities to measure matched asset and liability positions.

Furthermore, the option participates in simplifying hedge accounting administrative costs. We are therefore concerned about the introduction of the third condition by which the changes in the fair value of the assets or liabilities be substantially offset by the item used to hedge. A supplementary effectiveness test would have to be implemented, with the advantages of the hedging opportunity being constraint.

QUESTION 2
Are you aware of any financial instruments to which entities are applying, or are intending to apply, the fair value option that would not be eligible for the option if it were revised as set out in this Exposure Draft? If so:
(a) Please give details of the instrument(s) and why it (they) would not be eligible.
(b) Is the fair value of the instrument(s) verifiable (see paragraph 48B) and if not, why not?
(c) How would applying the fair value option to the instrument(s) simplify the practical application of IAS 39?

We are not aware of such financial instruments.

QUESTION 3
Do the proposals contained in this Exposure Draft appropriately limit the use of the fair value option so as to address adequately the concerns set out in paragraph BC9? If not, how would you further limit the use of the option and why?

As stated in our answer to question 1, the limits proposed by the amendment to the use of fair value option seem to be so strict that entities do not beneficiate of the advantages of the option anymore. We therefore believe that further limitation would not be either required or useful.

QUESTION 4
Paragraph 9(b)(i) proposes that the fair value option could be used for a financial asset or financial liability that contains one or more embedded derivatives, whether or not paragraph 11 of IAS 39 requires the embedded derivative to be separated. The Board proposes this category for the reasons set out in paragraphs BC6(a) and BC16-BC18 of the Basis for Conclusions on this Exposure Draft. However, the Board recognises that a substantial number of financial assets and financial liabilities contain embedded derivatives and, accordingly, a substantial number of financial assets and financial liabilities would qualify for the fair value option under this proposal.

Is the proposal in paragraph 9(b)(i) appropriate? If not, should this category be limited to a financial asset or financial liability containing one or more embedded derivatives that paragraph 11 of IAS 39 requires to be separated?

We do not believe that this category should be limited.

QUESTION 5 Transition requirements
Paragraph 103A proposes that an entity that adopts early the December 2003 version of IAS 39 may change the financial assets and financial liabilities designated as at fair value through profit or loss from the beginning of the first period for which it adopts the amendments in this Exposure Draft. It also proposes that in the case of a financial asset or financial liability that was previously designated as at fair value through profit or loss but is no longer so designated:

(a) if the financial asset or financial liability is subsequently measured at cost or amortised cost, its fair value at the beginning of the period for which it ceases to be designated as at fair value through profit or loss is deemed to be its cost or amortised cost.

(b) if the financial asset is subsequently classified as available for sale, any amounts previously recognised in profit or loss shall not be reclassified into the separate component of equity in which gains and losses on available-for-sale assets are recognised.

However, in the case of a financial asset or financial liability that was not previously designated as at fair value through profit or loss, the entity shall restate the financial asset or financial liability using the new designation in the comparative financial statements.

Finally, this paragraph proposes that the entity shall disclose:

(a) for financial assets and financial liabilities newly designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the previous financial statements.

(b) for financial assets and financial liabilities no longer designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the current financial statements.

Are these proposed transitional requirements appropriate? If not, what changes do you propose and why? Specifically, should all changes to the measurement basis of a financial asset or financial liability that result from adopting the amendments proposed in this Exposure Draft be applied retrospectively by restating the comparative financial statements?

Our entity's specific position is not concerned by this question.

QUESTION 6
Do you have any other comments on the proposals?

No we don't.