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Sandra Thompson
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

CL 102

26 July 2004

Dear Ms Thompson

IAS39: the fair value option

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to respond the above Exposure Draft (ED). The document was considered at a recent meeting of ACCA's Financial Reporting Committee and I am writing to give you their views.

We consider that IASB should not proceed with this amendment in its present form as it will not improve the standard. We supported the fair value option in the revised version of IAS39 when it was issued for comment.

We continue to have significant reservations over the inclusion in reported profits of the effects of changes in a company's creditworthiness reflected via the fair value of its liabilities. We would therefore support the ED to the extent that it simply restricted those effects.

The ED's amendments might also assist with the endorsement of IAS39 by the European Union.

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In our view, however, the following problems with the ED outweigh these potential advantages.

- It is a rules-based approach which will encourage financial engineering to circumvent them. For example if fair value accounting is desired then it may be possible to incorporate a relatively insignificant embedded derivative into the financial instrument.
- It is difficult to be sure that all reasonable uses of the fair value option have been covered
- The changes would add complexity to what is already a difficult standard
- It brings in two thresholds of measurement – reliable where you must apply fair values, verifiable where you have the option – which seems inconsistent and illogical

As an alternative solution to the concerns raised by some regulators we suggest that

- There should be one test of fair value in IAS39 – if the current reliability test is not adequate it needs to be upgraded to the verifiability test included in this ED
- There should be a requirement of disclosure of when and why the fair value option is being used, in addition to the existing disclosure concerning the effects of credit rating changes on liabilities
- For regulated entities such as banks and insurers, the prudential supervisors could place their own restrictions on the use of fair values (as alluded to at the top of page 13 of the ED).

If there are any matters arising from the above that require further clarification please be in touch with me.

Yours sincerely

Richard Martin
Head of Financial Reporting