

8 October 2004

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

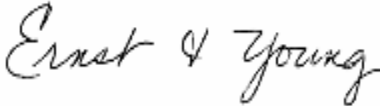
For the attention of: Ms Sandra Thompson

**Exposure Draft: Transition and Initial Recognition of Financial Assets and Financial Liabilities**

The global organisation of Ernst & Young is pleased to submit its comments on the Exposure Draft: ("the ED") *Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Transition and Initial Recognition of Financial Assets and Financial Liabilities*. In summary, we support the proposal outlined in this ED, except as noted in the attached appendix.

Should you wish to discuss this letter with us, please contact David Lindsell on 020 7980 0106 or Tony Clifford on 020 7951 2250.

Yours faithfully



**Exposure Draft: Transition and Initial Recognition of Financial Assets and Financial Liabilities**

**Appendix: Responses to specific questions:**

**QUESTION 1**

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

Please reference our response to Question 2 below.

**QUESTION 2**

*Do the proposals contained in the 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?*

Ernst & Young supports the proposals in this ED to provide an entity the option of full retrospective application or prospective application, when considering the application of IAS 39 (as amended March 2004) paragraph AG76. This amendment will assist in eliminating a difference with the US GAAP equivalent (EITF 02-3) in addition to reducing the burden on reporting entities of initial application.

However, the EITF subsequently amended EITF 02-3 and its application date is generally regarded as 21 November 2002.

We recommend the Board amend the proposed paragraph 107A to permit prospective application to transactions entered into after 21 November 2002, as this is the only solution that will achieve harmonisation with US GAAP.

**QUESTION 3**

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

1. Effect on 2004 reporting

We urge the Board to finalise this amendment (and other outstanding IAS 39 amendments) prior to 31 December 2004 so that entities may take advantage of applicable first-time adoption provisions in their 2004 financial statements.

2. Recognition of deferred profit or loss

We believe the IASB should provide further guidance on the subsequent recognition of any “day 1” profit or loss deferred. We believe there is currently considerable variety of interpretation by preparers and, without such guidance, significant diversity will continue. The IASB should coordinate this project with the FASB in order to achieve a consistent interpretation.

We believe the following implementation issues should be considered by the IASB:

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- The mismatch between the need to recognise immediately any expenses associated with entering into a financial instrument with the recognition of profit on the instrument if no “day 1” profit can be recognised, such that a “day 1” net loss will be reported on “day 1”.
- Subsequent valuation of a financial instrument that requires deferral of “day 1” profit or loss.
- Subsequent recognition of any “day 1” profit or loss deferred.
- The extent to which unobservable variables that have an insignificant effect on the determination of ‘day 1’ profit or loss to be recognised should be considered when determining fair value based on “a valuation technique whose variables include **only** data from observable markets”.