

22.7/8/1

7 July 2004

Sir David Tweedie
Chairman
IASB
30 Cannon Street
London EC4M 6XH

Dear Sir David,

RE: IAS 39: THE FAIR VALUE OPTION

Although we fully understand that the fair value option, as has been made available in IAS 39 published by the IASB last December, may raise concerns of regulators in Europe, UNICE does not support the afore-mentioned exposure draft.

The European business community welcomed the introduction of the fair value option insofar as it was seen to facilitate the implementation of IAS 39, more particularly in order to cope with the inadequacy of hedge accounting procedures included in IAS 39.

On the basis of the exposure draft, we observe:

- that none of the objectives (listed in BC 9) that had been assigned to the IASB has been reached; the proposals, if implemented, would not solve the issues at stake;
- that the restrictions imposed on the use of the fair value option are such that the original objective of facilitating the implementation of IAS 39 is impaired; more particularly the introduction of a condition such as assets and liabilities that have to "substantially offset" each other probably prohibits natural hedges from being faithfully reported in numerous circumstances;
- that the introduction of the verifiability threshold is highly undesirable: first of all, in our view, verifiability is a condition of reliability; the use of the word in itself is inappropriate; moreover and even more importantly, the condition of a low range of estimates would prohibit the use of the fair value option for financial instruments that, in other situations, may be required by the standard to be measured at fair value, in the absence of the "verifiability" threshold; we believe that the need for reliability applies to all situations in the same manner.

The exposure draft also refers to regulators having the powers to oversee the application of the conditions in which the fair value option is applied. In our view this provision should be deleted:

- if it refers to the ordinary powers of enforcement entrusted to regulators, it is plainly useless;
- if it suggests that the conditions in which the fair value option may be applied are to be defined in greater detail by the regulators, we strongly object. The goal pursued in the adoption of IFRS in Europe is the harmonisation of accounting practices. The definition of accounting requirements should therefore remain the responsibility of the sole standard-setting body.

Because we understand and are ready to support the concerns raised by the fair value option as stated in IAS 39, UNICE suggests that the Board:

- removes the restrictions proposed;
- requests that the situations in which the fair value option is used are disclosed and justified as narratives in the notes;
- requests that the fair value option is consistently applied, from period to period, in all similar situations, as disclosed and justified.

We remain at your disposal should you wish to discuss these matters further.

Yours sincerely,



Jérôme P. Chauvin
Director, Company Affairs Department