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Internal Market and Services DG

Director General

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Sir David Tweedie  
Chairman IASB  
First Floor, 30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir David,

**Subject: Exposure Draft Financial Instruments (IAS 39 revision – Phase 1)  
"Classification and Measurement" – Comments on Near Final Draft**

We have had the opportunity to carry out a preliminary assessment of the substance of the Near Final Draft (dated 2 November) of the proposed accounting rules for financial instruments (IAS 39 revision, Phase I, "Classification and Measurement") focusing on how the IASB's response addresses the issues raised in the EC comment letter to the IASB dated 15 September. I understand that the target date for the final document is 12 November.

Before getting to that final stage, we would encourage the IASB's board to urgently reflect further and assess the extent to which the input from stakeholders (in particular from the EC, but also from European regulators and supervisors) has been effectively translated into the new text, especially as regards setting the right balance on fair value accounting and possible impact on financial stability.

Overall, we take note of a number of changes addressing issues raised in our letter of 15 September. However, it would seem that the current draft may not yet have struck the right balance between "fair value accounting" and "amortised cost accounting", and may lead to more instruments being classified at fair value through profit or loss compared to the existing IAS 39, thus potentially exacerbating income volatility – even if the impact will vary from one entity to another, depending on their business model and the type of financial instruments in their balance sheet. Concerns therefore remain about the way in which the IASB has defined the classification criteria set out in the draft.

For this reason, before getting to the final stage of this project, we encourage that the IASB considers ways to improve the appropriate use of fair value in the new proposal. We strongly encourage the IASB to revisit the key elements of its proposal having a more direct impact on the right dividing line between "fair value" and "cost" accounting and on financial stability (in areas such as the key role of business model, the scope of the OCI category and the recycling of gains/losses, and the prohibition of bifurcation of embedded

derivatives), with a view to delivering a long-term, robust solution to financial instrument accounting, and its implications on financial stability.

Although tentative, this is a general assessment of the main features of the IASB's proposal, leaving aside more detailed technical aspects, where EFRAG is carrying out its own technical analysis.



Jörgen HOLMQUIST

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