

Brussels, 19th November 2004

Accounting standards: Commission endorses IAS 39

The European Commission has adopted a Regulation endorsing International Accounting Standard (IAS) N° 39 on Financial Instruments: Recognition and Measurement, with the exception of certain provisions on the use of the full fair value option and on hedge accounting. This text was supported both by a qualified majority of Member States at the Accounting Regulatory Committee (ARC) on 1 October and by the European Parliament. The Commission has also adopted a political declaration stating that it expects the International Accounting Standards Board (IASB) to bring forward the necessary amendments to the current full fair value option by December 2004 and to the provisions on hedge accounting by September 2005. Use of IAS 39, apart from the 'carved-out' sections, will be legally binding for all listed companies in the EU from 1st January 2005.

Commissioner Frits Bolkestein said: "IAS 39 has been very controversial. I am glad that we have found a solution. The two 'carve outs' are purely temporary because the Commission expects the IASB to remedy the outstanding problems quickly. The Commission is not a standard setter and cannot resolve them on its own."

Before IAS become legally binding for listed companies on 1 January 2005 (see [IP/02/827](#)), they must be endorsed by the Commission, after consulting Member States in the ARC, the European Parliament and EFRAG, the European Financial Reporting Advisory Group (composed of independent private sector experts). The Commission has already endorsed 33 standards (see [IP/03/1297](#)) but IAS 39 has been the subject of revisions.

The Commission has endorsed about 95% of the text of IAS 39. It carved out certain provisions because - in agreement with most Member States and the European Parliament - it considers they require further revision. There are two carve outs:

- The carve-out of the **full fair value option** is based on observations from the European Central Bank and prudential supervisors represented in the Basel Committee of banking supervisors. The IASB took these observations into account when issuing an Exposure Draft in April 2004 limiting the scope of the full fair value option. However, the IASB has not yet taken a final position on this important issue. In addition, Article 42a of the Fourth Company Law Directive (Directive 78/660/EEC) does not allow full fair valuation of all liabilities; the main category of liabilities excluded from fair valuation is companies fair valuing their own debt. Companies are therefore not allowed to use the full fair value option. Neither can Member States require mandatory use of the carved out fair value provisions.

- The carve out of **certain hedge accounting provisions** reflects criticism by the majority of European banks, which argued that IAS 39 in its current form would force them into disproportionate and costly changes both to their asset/liability management and to their accounting systems and would produce unwarranted volatility. However, because there is no existing EU law on this issue, individual companies may apply the 'carved out' hedge accounting provisions. A Member State may also make these provisions mandatory under its national rules.

The Commission's political declaration is attached:

For further details see MEMO/04/265 and:

http://www.europa.eu.int/comm/internal_market/accounting/index_en