



LONDON INVESTMENT BANKING ASSOCIATION  
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10 January 2008

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

By email to: [commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear Sirs

**Exposure Draft of Proposed Improvements to  
International Financial Reporting Standards**

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB's 11 October Exposure Draft of Proposed Improvements to International Financial Reporting Standards ("the ED"). LIBA is, as you know, the principal UK trade association for investment banks and securities houses; a list of our members is attached.

We wish to state at the outset that we support the principle of an annual improvements project which combines any resulting changes in a single exposure draft; we believe this provides an effective way to deal with the numerous small IFRS issues that arise from time to time. We are however concerned that certain of the proposals in the present ED go beyond what we think should be classified as "miscellaneous, non-urgent and necessarily minor amendments".

Of particular concern to our members is the proposed amendment to IAS 39 which removes from the definition of a derivative the exclusion for contracts linked to non-financial variables that are specific to a party to the contract. Whilst we do not necessarily disagree with this proposal, we think it has implications that are broader than the overlap in scope between IAS 39 and IFRS 4 *Insurance Contracts* set out in paragraphs BC1-4 on the proposed amendments to IAS 39.

As noted in its July 2006 and January 2007 Updates, the IFRIC believed that the exclusion from the definition of a derivative for a non-financial variable specific to a counterparty to the contract applies to a broader range of instruments than just insurance contracts. As a result we disagree with the comment in paragraph BC3 that "the proposed amendment would not affect the scope of IAS 39, because contracts within the scope of IFRS 4 are excluded from IAS 39 by paragraph 2(e) of IAS 39". We believe the proposals will widen the scope of IAS 39 such that many contracts referenced to non-financial variables that do not meet the existing definition of a derivative could potentially be captured by the amended definition. For example we consider that the amendment will change the classification of contracts which are linked to an entity's financial performance and/or its level of production.

Given the BC3 statement quoted above, we do not believe it was the Board's intention to widen the definition of a derivative in this manner and we therefore question whether this amendment's broader implications have been sufficiently considered by the Board, particularly given the IFRIC view (quoted in their January 2007 Update) that there is "significant diversity in practice regarding how financial and non-financial variables (are) determined".

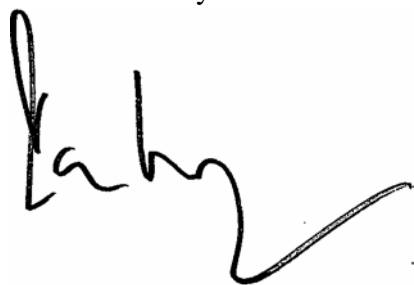
Take for example the treatment of preference shares that pay amounts linked to the issuer's revenue or EBITDA (earnings before interest, tax, depreciation and amortisation), which are liabilities for IAS 32 purposes. Under the amended definition of a derivative we are not clear whether such a preference share contains an embedded derivative that requires bifurcation: i.e. it is unclear whether "revenue" or EBITDA are non-financial variables, or whether the payment of returns based on such variables are closely related to the debt host (given that they are neither interest nor credit related). If issues such as this have been considered by the Board, an explanation should be included in the Basis for Conclusions in order to give clarity to the issues raised by the IFRIC. If not, we strongly suggest the Board should consider separating this proposed amendment from the remainder of the improvements project with a view to considering its broader implications.

A further example of a proposed amendment which we think goes beyond the proper scope of the improvements project is the proposed new paragraph 16A in IAS 1 relating to the statement of compliance with IFRSs. In our view this does not fall within the category of "miscellaneous, non-urgent and necessarily minor amendments", and we think this is supported by the existence of dissenting views on the proposal. Again, we do not necessarily disagree with what is proposed, but we believe the underlying principle is of sufficient importance to warrant consideration in a broader context than is provided by the annual improvements project.

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I hope these comments are helpful. We would of course be pleased to expand on any points which you may find unclear, or where you would like further details of our views.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping horizontal stroke extending to the right.

**Ian Harrison**  
**Director**

# **LONDON INVESTMENT BANKING ASSOCIATION**

## **LIST OF MEMBERS**

ABN AMRO Bank	ING Bank NV London Branch
Altium Capital Limited	Instinet Europe Ltd
Ambrian Partners Limited	Investec plc
Arbuthnot Latham & Co., Limited	Jefferies International Limited
Arbuthnot Securities Limited	JP Morgan Cazenove Ltd
Arden Partners plc	J.P. Morgan Securities Ltd
Banc of America Securities Limited	KBC Peel Hunt Ltd
Barclays Capital	Kaupthing Singer & Friedlander
Bayerische Hypo- und Vereinsbank AG	Landsbanki Securities (UK) Limited
Bear, Stearns International Limited	Lazard & Co., Limited
BNP Paribas	Lehman Brothers
Brewin Dolphin Securities	Libertas Capital Group plc
Calyon	Merrill Lynch Europe PLC
Cantor Fitzgerald Europe	Mizuho International plc
Cenkos Securities Limited	Morgan Stanley & Co. International plc
CIBC World Markets	NCB Stockbrokers Limited
Citigroup Inc.	Noble & Company Limited
Close Brothers Corporate Finance Ltd	Nomura Code Securities Limited
Collins Stewart Europe Limited	Nomura International plc
Credit Suisse Securities (Europe) Ltd	N M Rothschild & Sons Limited
Daiwa Securities SMBC Europe Limited	Numis Securities Limited
Dawnay, Day & Co., Limited	Oriel Securities Limited
Deutsche Bank AG London	Panmure Gordon & Co
Dresdner Kleinwort	PiperJaffray Ltd
Evolution Securities Limited	Sanford C. Bernstein Limited
Fox-Pitt Kelton Limited	Société Générale
Goldman Sachs International	3i Group plc
Greenhill & Co. International LLP	UBS AG London
HBOS Treasury Services plc	Winterflood Securities Limited
HSBC Bank plc	

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