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21 July 2004

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Amendments to IAS 39 Financial Instruments: Recognition and Measurement, The Fair Value Option

Dear Sir David,

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's) proposed amendment to IAS 39, *Financial Instruments: Recognition and Measurement (IAS 39), The Fair Value Option* (the Proposed Amendment).

Deloitte Touche Tohmatsu strongly supports the development of a single set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality and comparability of information reported by entities in many jurisdictions. Ideally, these standards should be based on sound principles in order for information to be presented in the manner most useful for users around the world, to attain a consistent understanding of the guidance and results that are consistent with the Board's intent.

We believe the Proposed Amendment diverges from a principle-based approach to a set of arbitrary rules. In addition, the basis for the proposed rules is unclear, which creates the potential for differing interpretations that are not consistent with the Board's intent. We also believe the introduction of a new "verifiability" measurement standard as a condition for using the fair value option will raise numerous implementation issues. We do not believe the Proposed Amendment is an ideal or workable solution.

The worldwide system of reporting should be based on open and transparent accounting, free from national distortions and pressures. We believe political involvement in the standard setting process hinders the movement towards a single set of high quality, globally accepted accounting standards. We note that there has been much debate surrounding the use of fair value as a measurement basis for financial assets (and liabilities). We do not believe the proposals represent a high quality solution and, accordingly, we question whether the Proposed Amendment would be accepted by other standard-setters in the quest for convergence around high quality solutions.

We understand that these are difficult issues and regret that certain concerns which have been raised have not been fully resolved. At the same time, we encourage the IASB to continue an open dialogue with those concerned constituents. We note that IAS 39 is not untried and untested for those entities around the world already reporting under IFRS. It is already a globally recognised and applied standard in some jurisdictions outside Europe. Whilst IAS 39 is not perfect, we believe the current fair value option in IAS 39 is principle-based and practically achievable.

We realise that the proposed revisions to IAS 39 are only a small subset of that Standard. Whilst not ideal, we acknowledge that the IASB may conclude that it must move forward with the Proposed Amendment. In such case, we have a number of technical comments and observations regarding certain implementation issues that may arise from adoption of the Proposed Amendment, which we have included in the attached Appendix.

We appreciate the opportunity to provide our comments. If you have any questions concerning our response, please contact Ken Wild at +44 207 007 0907.

Sincerely,

Deloitte Touche Tohmatsu

Appendix:

Technical Comments and Observations

<u>Question 1</u>
Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?

As noted in our cover letter, we do not believe the Proposed Amendment is a high-quality or workable solution for the concerns cited in the exposure draft. We also note that the "verifiability" measurement standard introduced in the Proposed Amendment is not mentioned in the IAS Framework, therefore adoption of the verifiability standard would be inconsistent with the "reliability" standard set forth in the Framework. We believe the current fair value option in IAS 39 is principle-based and practically achievable. Our observations and technical comments on the Proposed Amendment are summarised in our responses to the questions asked in the exposure draft, which are included in this Appendix.

<u>Question 2</u>
Are you aware of any financial instruments to which entities are applying, or are intending to apply, the fair value option that would not be eligible for the option if it were revised as set out in this Exposure Draft? If so:

- **(a) please give details of the instrument(s) and why it (they) would not be eligible.**
- **(b) is the fair value of the instrument(s) verifiable (see paragraph 48B) and if not, why not?**
- **(c) how would applying the fair value option to the instrument(s) simplify the practical application of IAS 39?**

We note that the proposed revisions to the fair value option have not been appropriately field-tested. Without conducting some kind of analysis or field test ourselves, which has not been possible in the time available, it is difficult for us to assess at this time their practicability and the implications of their implementation for many financial assets and financial liabilities. Although, as noted below, we identified a possible issue related to certain loan commitments, we expect that adoption of the Proposed Amendment in its current form may ultimately preclude use of the fair value option for other financial assets and financial liabilities that have not yet been identified.

The Board should consider whether the Proposed Amendment would preclude an entity from using the fair value option for certain loan commitments. It is unclear whether the fair value measurement of loan commitments would be considered verifiable due to the impact of fallout assumptions on the valuation models. Use of the fair value option for loan commitments would simplify the application of IAS 39 by allowing entities that manage risk exposures related to loan commitments on a fair value basis to offset the profit or loss impact of such natural hedges without having to meet the stringent IAS 39 requirements for hedge accounting.

<u>Question 3</u>

Do the proposals contained in this Exposure Draft appropriately limit the use of the fair value option so as to address adequately the concerns set out in paragraph BC9? If not, how would you further limit the use of the option and why?

We do not believe the provisions of the Proposed Amendment will fully resolve the concerns expressed in paragraph BC9.

We are particularly concerned about implementation issues that may arise from the proposed requirement that an entity cannot use the fair value option for financial assets or financial liabilities unless the fair values of those instruments are verifiable. We believe the introduction of a new standard that differs from the reliable measurement standard used elsewhere in IFRS standards could be confusing. We support the use of a single measurement standard, i.e., the reliable measurement standard, for determining whether an asset or liability can be recorded at fair value through profit or loss.

Use of a dual-measurement standard raises important conceptual issues about the use of fair value measurements in IFRS. If, under the revised fair value option, it is not appropriate to record certain assets and liabilities at fair value because their fair value measurements are not verifiable, why is it appropriate to record other assets and liabilities at fair value in accordance with IAS 39 and other IFRS Standards if the fair values of those assets and liabilities cannot meet the same verifiable standard? This inconsistency is acknowledged in paragraph BC24(c), which states that the Board does not want to imply that items covered by other Standards (e.g., share options) need not be measured at fair value if they do not meet the "verifiable" test proposed for the fair value option.

We are also concerned that the use of two measurement standards (verifiable and reliable) and the confusion that may result from trying to distinguish between those two standards may pose difficult auditing challenges.

We also believe that the use of the "verifiable" measurement standard will create internal inconsistencies within IAS 39. For example, an embedded derivative that is not closely related to the host contract needs to be separated irrespective of whether its fair value is verifiable. If the fair value of the embedded derivative cannot be reliably determined, the entire hybrid instrument must be accounted for at fair value (paragraph 12 requirement). However, under the Proposed Amendment, accounting for the entire hybrid instrument at fair value through use of the fair value option (ignoring the application of the paragraph 12 requirement) is not permissible unless the fair value of the entire hybrid instrument is verifiable. We fear the two requirements and their inconsistent treatments will cause confusion.

A detailed discussion of the basis for our view that the Proposed amendment will not fully address the stated concerns (paraphrased below) is detailed in the following paragraphs.

Concern – The fair value of financial assets and financial liabilities that use the fair value option should be verifiable to prevent entities from using subjective valuations to inappropriately affect profit or loss.(BC9(a))

We understand and support limiting the option to account for financial instruments at fair value to those instruments for which the measurement of fair value meets a certain standard. However, as noted above, we believe the introduction of a new "verifiable" measurement standard raises a number implementation issues that should be addressed by the Board. The Proposed Amendment's definition of "verifiable" lacks clarity and is difficult to reconcile to other measurement guidance included elsewhere in IFRS. Such ambiguity is susceptible to subjective interpretation that could ultimately affect profit or loss.

We believe that a reliable measurement standard, which is used elsewhere in IFRS, is better understood by users and is applied consistently. We believe that the final amendment should limit the fair value option to those financial assets and financial liabilities whose fair values are reliably measurable.

If the Board chooses to retain a verifiable measurement standard, we believe the final amendment should clarify further the difference between the verifiable standard and the reliable standard used in paragraphs 46(c) and 47(a) of IAS 39, and provide more detailed implementation guidance that highlights this difference. The fair value of a financial asset or financial liability is defined in the Proposed Amendment as being "verifiable" only if "the variability in the range of reasonable fair value estimates … <u>is low</u>". Paragraph AG80 notes that fair value is "reliably measurable" if "the variability in the range of reasonable fair value estimates <u>is not significant</u> for that instrument" (and if the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value). While paragraph BC11 indicates that "verifiable" is a stricter test than that of "reliably measured", the final amendment should illustrate the difference between "low" (the verifiable standard) and "not significant" (the reliable standard). Paragraphs BC24 and BC25 should reference paragraph AG80 and clarify how that guidance reconciles with the basis for conclusions.

Additional discussion about the meaning of "verifiable" should indicate whether the acceptable level of variability in the range of reasonable fair value estimates is relative to the overall fair value of the financial asset or financial liability or some other measure.

The final amendment also should state whether an entity is permitted to continue to account for a designated financial asset or financial liability at fair value through profit or loss if the entity subsequently determines that the fair value of the asset or liability is no longer verifiable.

We encourage the Board to augment its illustrations of valuation techniques that would produce verifiable fair value estimates. For example, discussion of the valuation technique described in paragraph 48B(b) should be expanded. As described, this technique uses variables that include "primarily observable market data". "Primarily" is not defined in accounting literature. The final amendment should use a term that is more commonly understood such as "substantially all" or "a majority" (e.g., "substantially all of the variables are based on observable market data.")

In addition, this example should specify if an entity's assessment of whether variables used in the valuation technique include "primarily observable market data" must also consider the relative impact of each variable on the overall determination of fair value. For example, assume a valuation technique uses five variables. Four of the variables are based on observable market data and collectively determine 40% of the overall fair value calculated by the valuation model. The remaining variable is not based on observable market data, yet its relative weight in the valuation model accounts for 60% of the total fair value computed by the model. In this example, it could be argued that since 80% (four out of five) of the variables are based on observable market data, the valuation technique incorporates "primarily observable market data". Only 40% of the overall fair value computed by the model, however, is collectively attributable to these variables. The final amendment should specify whether an entity could consider fair values computed by this valuation technique to be verifiable.

Concern - Use of the fair value option should reduce, not increase, volatility in profit and loss (BC9(b))

We question whether a concern about potential volatility in profit or loss is an appropriate rationale for proposing an amendment to a financial reporting standard. As noted in the Framework, the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users. The principal qualitative characteristics that make information provided in financial statements useful to users are understandability, relevance, reliability and comparability. Attributes of reliability include faithful representation, substance over form, neutrality, prudence and completeness. As long as recognition of a financial event is consistent with these principles, we do not believe consideration of potential volatility in profit or loss is relevant.

If we temporarily put aside this significant conceptual concern, we observe that application of the guidance in the Proposed Amendment may still increase, not reduce, volatility in profit or loss in certain circumstances.

The meaning of the terms "contractually linked" and "performance of assets" should be clarified in condition 9(b)(ii) of the final amendment. In assessing whether this condition has been met, it is unclear whether the notional amounts of the financial liability and the related asset or portfolio of assets need to be substantially similar. A significant mismatch in notional amounts could increase volatility in profit or loss if the newly-designated financial liability is disproportionately larger than the contractually-linked asset or portfolio of assets. This condition should also indicate whether all of the risk exposures inherent in the financial liability need to be similar to, or substantially offset, all of the risk exposures associated with the related asset or portfolio of assets (e.g., if the fair value of the financial liability is most sensitive to changes in interest rates, can the contractually-linked asset or portfolio of assets have foreign currency risk as its primary risk exposure?) Mismatched risk exposures could also increase volatility in profit or loss.

The final amendment should clarify what is meant by "substantially offset" in condition 9(b)(iii), since the concept of offset is key to reducing volatility in profit or loss. It is unclear how "substantially offset" in this context differs from the application of the IAS 39 requirement that a hedge "is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk …) (paragraph 88(b)of IAS 39(revised).) Some constituents may even interpret the word "substantially" as implying that that this standard creates a higher threshold than is required to assert that a hedge is highly effective. The Basis for Conclusions (paragraph BC6(c)) suggests that one reason for creating the fair value option was to provide entities with an alternative to having to comply with the complex requirements for hedge accounting, including the need to show that a hedge is highly effective. The Board should describe how an entity attempting to apply the fair value option can demonstrate, without having to use stipulated metrics, that a substantial offset has been achieved.

Condition 9(b)(iii) of the final amendment should also clarify what is meant by "the exposure to changes in the fair value of the financial asset or financial liability (or portfolio of financial assets or liabilities)". Does this refer to changes in <u>total</u> fair value, which would consider changes to fair value attributable to the combined effect of all applicable risk exposures (such as interest rate risk, credit risk or foreign currency risk), or can the condition be satisfied by achieving substantial offset of one specified risk exposure that, taken alone, may not offset the entire fluctuation in fair value? In other words, can an entity satisfy this condition by substantially offsetting the impact of one specified element of fair value, or must it offset the combined impact of all drivers of fair value? If offset of total fair is not required, use of the fair value option may not significantly reduce volatility in profit or loss.

The final amendment should specify whether an entity that desires to use the fair value option must satisfy one of the conditions in paragraph 9(b) solely at the time of designation, or whether continuing compliance with the condition is required. Failure to require a continual assessment could increase volatility in profit or loss if a change in circumstances causes an entity to no longer satisfy a condition(s) that was met at the time of designation.

The Board should consider adding a provision to the final amendment that explicitly prohibits any entity from "double-hedging" a single risk exposure. This could occur if: (1) an entity designates a financial asset or financial liability to be accounted for under the fair value option; (2) the entity identifies a financial liability or financial asset as the related offsetting exposure; (3) the related financial asset or financial liability identified as the offsetting exposure is currently being accounted for at fair value through profit or loss because it is designated as a hedged item in a fair value hedge under IAS 39. In this fact pattern, at the time of designation, the risk/volatility of the related offsetting exposure is already being offset by the hedging instrument (in order to qualify for the hedging relationship, the hedge must be highly effective in achieving offsetting changes in fair value attributable to the hedged risk); the incremental exposures related to the newly-designated financial asset or liability will result in overhedging the risk of the related financial asset or financial liability.

The irrevocability of the fair value option and IAS 39 restrictions on reclassification of a financial instrument into or out of the fair value through profit or loss category may also increase volatility in profit or loss. The provisions of the Proposed Amendment require, at the time of designation, that a financial asset or financial liability designated to be accounted for at fair value through profit or loss under the fair value option as a result of meeting either condition 9(b)(ii) or 9(b)(iii) must have an offsetting identified "related" financial asset or financial liability. Although this requirement is designed to reduce volatility in profit or loss at the time of designation, volatility will increase if either the offsetting financial asset or financial liability or the designated financial asset or liability later matures, is disposed of, or is otherwise liquidated. In such circumstances, the remaining unmatched position still must be carried at fair value through profit or loss, even though the offsetting exposure no longer exists, due either to the irrevocability of the fair value option or the prohibition on reclassification described in paragraph 50. A similar concern is expressed in paragraph AV5. The final amendment should specify if other accounting alternatives are permissible and, if applicable, the transition guidance that should be applied in such situations.

The IASB should take this opportunity to clarify the application of the IAS 39, paragraph 50 guidance on reclassification of items into or out of the fair value through profit or loss category. Paragraph 50 is clear that reclassifications are not permitted. However, if the conditions for using the fair value option in paragraph 9(b) must be continuously assessed, and use of the fair value option must be discontinued if the item no longer meets any of the conditions in paragraph 9(b), an entity may effectuate a "reclassification" by voluntarily causing the conditions in paragraph 9(b) to no longer be met. For example, an entity could terminate an offsetting contract. The final amendment should clarify the interaction between a change in the satisfaction of a condition in paragraph 9(b) and the prohibition against reclassifying into or out of the fair value through profit or loss category.

Concern: An entity may be able to recognise gains or losses in profit or loss for changes in its own creditworthiness in circumstances in which a financial liability is designated to be accounted for under the fair value option. (BC9(c))

The Proposed Amendment does not include additional provisions to address this concern.

<u>Question 4</u>

Paragraph 9(b)(i) proposes that the fair value option could be used for a financial asset or financial liability that contains one or more embedded derivatives, whether or not paragraph 11 of IAS 39 requires the embedded derivative to be separated. The Board proposes this category for the reasons set out in paragraphs BC6(a) and BC16-BC18 of the Basis for Conclusions on this Exposure Draft. However, the Board recognises that a substantial number of financial assets and financial liabilities contain embedded derivatives and, accordingly, a substantial number of financial assets and financial liabilities would qualify for the fair value option under this proposal.

Is the proposal in paragraph 9(b)(i) appropriate? If not, should this category be limited to a financial asset or financial liability containing one or more embedded derivatives that paragraph 11 of IAS 39 requires to be separated?

We believe that, if use of the fair value option is to be restricted, there is more conceptual merit in restricting this condition to apply only to those financial assets or financial liabilities that contain one or more embedded derivatives that must be separated from the host and measured at fair value in accordance with paragraph 11 of

IAS 39. This seems more consistent with the Board's concerns described in paragraph BC6(c). Otherwise, very simple, minor derivatives could be embedded in a financial asset or financial liability to enable use of the fair value option in circumstances in which it otherwise would not permitted. Paragraph BC10 notes that a rationale for the Proposed Amendment is to limit use of the fair value option, however, we do not consider the condition in paragraph 9(b)(i), as currently proposed, to be particularly limiting or restrictive. Indeed, the Board acknowledges in paragraph BC22 that this condition may allow the fair value option to be used too broadly.

For example, the condition may permit a financial instrument with an embedded derivative (e.g., a prepayable loan) to qualify for the fair value option, but not a more reliably measurable financial instrument without such an embedded derivative (e.g., a non-prepayable loan.) Moreover, it is unclear if the Proposed Amendment places <u>any</u> limitations on the identification of embedded derivatives. For example, can a fixed rate receivable be characterised as a LIBOR-based receivable with an embedded interest rate swap, which would qualify for the fair value option?

<u>Question 5</u>

Paragraph 103A proposes that an entity that adopts early the December 2003 version of IAS 39 may change the financial assets and financial liabilities designated as at fair value through profit or loss from the beginning of the first period for which it adopts the amendments in this Exposure Draft. It also proposes that in the case of a financial asset or financial liability that was previously designated as at fair value through profit or loss but is no longer so designated:

a) **if the financial asset or financial liability is subsequently measured at cost or amortised cost, its fair value at the beginning of the period for which it ceases to be designated as at fair value through profit or loss is deemed to be its cost or amortised cost.**
b) **if the financial asset is subsequently classified as available for sale, any amounts previously recognised in profit or loss shall not be reclassified into the separate component of equity in which gains and losses on available-for-sale assets are recognised.**

However, in the case of a financial asset or financial liability that was not previously designated as at fair value through profit or loss, the entity shall restate the financial asset or financial liability using the new designation in the comparative financial statements.

Finally, this paragraph proposes that the entity shall disclose:

a) **for financial assets and financial liabilities newly designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the previous financial statements.**
b) **for financial assets and financial liabilities no longer designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the current financial statements.**

Are these proposed transitional requirements appropriate? If not, what changes do you propose and why? Specifically, should all changes to the measurement basis of a financial asset or financial liability that result from adopting the amendments proposed in this Exposure Draft be applied retrospectively by restating the comparative financial statements?

We do not object to the proposed transition provisions, however, we believe the final amendment should provide additional implementation guidance for situations in which an entity designates as at fair value through profit or loss a financial asset or financial liability that was not previously designated. In such circumstances, it is unclear if the newly-designated financial asset or financial liability must satisfy the required conditions for use of the fair value option as of (1) the date the entity adopts the amendment, (2) as of the beginning of the first comparative period presented in the financial statements, (3) or at both dates. The final amendment also should discuss the accounting implications of situations in which an entity is aware, with hindsight, that a financial asset or financial liability would not have qualified for use of the fair value option at the beginning of the first comparative period presented in the financial statements.

The final amendment should also clarify if any special transition provisions exist for circumstances in which an entity decides, upon adoption of the amendment, to cease hedge accounting and use the fair value option instead.

We further recommend that the discussion in paragraph 103A that focuses solely on disclosure requirements should be presented in a separate paragraph in the final amendment.

Question 6
Do you have any other comments on the proposals?

We have additional comments and observations in the following areas:

References to Prudential Supervisors

We do not believe it is appropriate to refer to the powers of prudential supervisors in the final amendment. As noted in BC11(b), this reference merely notes powers that supervisors may already possess and does not provide constituents with any insight or guidance on how to apply the requirements of the IAS 39.

Measurement Issues

We reiterate an observation included in our original comment letter for IAS 39 that the proposal to permit any financial instruments to be carried at fair value, coupled with the ongoing difficulties associated with fair value measurement, will increase pressures on the Board to move forward in its efforts to improve the guidance and standards related to fair value measurement. We encourage the Board to be proactive in developing additional implementation guidance to address fair value measurement issues.

For example, some mortgage banks assert that the fair value for mortgage loans (financial assets) can be obtained by referring to the quoted price of listed bonds (financial liabilities) issued to fund those mortgage loans. (Both the mortgage loans and the listed bonds have similar prepayment provisions but different credit risks.) In the Board's view, would such a valuation methodology be appropriate? If so, is it appropriate to assert that the fair value of other financial assets and financial liabilities can be obtained by using the fair value of a related financial liability or financial asset as a surrogate? The Board should consider issuing additional guidance and standards related to fair value measurement.

Conditions to Qualify For the Fair Value Option

The final amendment should specify if an entity must prepare contemporaneous documentation that provides a written record of its election to use the fair value option, and the fair value option condition(s) satisfied at the time of designation.

We also question if condition 9(b)(ii) should be presented as a separate condition, because we cannot envision any circumstances in which a financial liability that satisfies this condition would not also meet condition 9(b)(i) (i.e., we believe a contractual link feature would be viewed as an embedded derivative.)

Interaction of Provisions in the Proposed Amendment With Existing IFRS

Paragraph 9 notes that the designation of financial assets or financial liabilities meeting conditions 9(b)(ii) and 9(b)(iii) as at fair value through profit or loss requires the identification of a related financial asset or financial liability with an offsetting exposure. The related financial asset or financial liability is also required to be measured at fair value through profit and loss, either by designation or, when applicable, by classification as held for trading. The final amendment should clarify if the identified related financial liability or financial asset must be accounted for at fair value through profit or loss prior to its identification as the offsetting exposure for the designated financial asset or financial liability accounted for under the fair value option. If not, this requirement should be reconciled to the requirement in paragraph 50 of IAS 39, that states that "*an entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued*".

For example, assume an entity holds an available-for-sale financial asset and subsequently issues a financial liability contractually-linked to that available-for-sale financial asset (thus satisfying condition 9(b)(ii)). At the issuance date of the financial liability, the entity elects to apply the fair value option to the financial liability. The entity identifies the available-for-sale financial asset as the related asset. The Proposed Amendment appears to require the available-for-sale financial asset, the "related asset", to be measured at fair value through profit or loss, and notes that this can be achieved through designation. Paragraph 50, however, states that the entity should not reclassify a financial instrument into the fair value through profit or loss category while it is held. The Board should address this apparent contradiction.

Similarly, it is unclear what transition provision should apply to a "related" financial asset or financial liability held by an entity and not previously measured at fair value through profit or loss that is subsequently so designated when it is identified as the offsetting exposure. The final amendment should specify if the transition provisions described in paragraph 103A of this Amendment are applicable, or whether other transition provisions apply. In the example in the preceding paragraph, a question that should be addressed is how the entity should account for any existing gains or losses associated with the available-for-sale financial asset that are recorded in equity in accordance with paragraph 55(b) of IAS 39 (e.g., whether such gains/losses should be recognised in current profit or loss.)

The ability of an entity to identify an existing held-to-maturity investment as a related offsetting exposure to a financial liability designated to be accounted for under the fair value option would raise additional implementation issues, since the guidance in the Proposed Amendment seems to suggest that the identified held-to-maturity investment would have to be designated as at fair value through profit or loss. The final amendment should clarify how this requirement interacts with the requirements of paragraph 52 of IAS 39. Paragraph 52 notes that "*whenever sales or reclassifications of more than an insignificant amount of held-to maturity investments do not meet any of the conditions in paragraph 9, any remaining held-to-maturity investments shall be reclassified as available for sale.*" Could an entity use the proposed fair value option guidance as a means to circumvent the requirements of paragraph 52?

For example, would the Proposed Amendment allow an entity to (1) match a financial liability accounted for under the fair value option to an existing investment accounted for as held-to-maturity; (2) designate that investment held-to-maturity as the "related asset" of that financial liability; and (3) subsequently account for that held-to-maturity investment at fair value through profit or loss through designation? If so, the final amendment should address whether an entity that later settles or disposes of the financial liability would be permitted to continue accounting for the related investment at fair value through profit or loss. Permitting this treatment would appear to leave the entity in the same position as if it had transferred a held-to-maturity investment to its trading portfolio, but would not affect the classification of the entity's remaining held-to-maturity investment portfolio. This scenario would also allow an entity to circumvent the prohibition in paragraph 79 on identifying a held-to-maturity investment as a hedged item with respect to interest-rate risk or prepayment risk, since similar accounting results could be obtained through use of the fair value option. The Board should address these issues and consider revising the final amendment, or proposing additional conforming amendments to IAS 39(revised).