REDOVISNINGSRÅDET

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

Dear David,

Re: Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: *the Fair Value Option*.

1. We appreciate the opportunity to respond to the International Accounting Standards Board´s abovementioned exposure draft. The response in this letter represents the views of the Swedish Financial Accounting Standards Council.

2. In general we agree with the comments made by EFRAG on the exposure draft in their (draft) letter, dated May 19, 2004:

- the proposed amendments are rule based and do not effectively meet their stated objectives,
- there is not sufficient conceptual support for the "verifiable" notion,
- there is a risk that this notion will introduce a "double standard" on the application of fair value,
- the proposed amendments unduly limit the effects of the December 2003 improvement of IAS 28 Investments in Associates and
- the reference to prudential supervisors may create unwanted impressions.

3. Although the abovementioned EFRAG (draft) letter may express also our views in a clear manner, we would like to emphasise the following points:

- the way we understand it the IASB has committed itself to delivering a "stable platform" for the changeover to IFRS in 2005 for a number of countries, followed by at least a 21-month "period of calm". The proposed amendments threaten the successful completion of this commitment.
- the sudden introduction of a term like "verifiable", not previously used in IFRS and not supported by the language in the Framework, is hard to reconcile with the vision of the creation of "a single set of high quality, understandable and enforceable global accounting standards" , which is part of the Constitution.
- we do not see a clear need for the proposed amendments and we find them based on an idea of preventing abuse. Accounting standards should not primarily be drafted to do just that. This seems to be particularly true in a situation where the proposed amendments have been considered by the Board before and where no substantive new arguments have been raised.

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- the proposed amendments will introduce a number of fairly complex rules, which in our mind will not stand a cost-benefit test.

4. For the abovementioned reasons we do not support the proposed amendments. We would strongly prefer IAS 39 to remain unchanged in respect of the fair value option.

Our comments to each question separately are enclosed below.

Stockholm 2004-07-09
The Swedish Financial Accounting Standards Council

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

Comments to Question 1
No we do not agree. Se our comments above.

Question 2
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?

Comments to Question 2
We are not aware of any such financial instruments.

Question 3
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?

Comments to Question 3
We do not think that the concerns set out in paragraph 9 are of such significance that they require a change of the standard in line with the proposed amendments.

Question 4
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?

Comments to Question 4

This Q cannot be responded to by us in a reasonble manner because of our general view on the lack of need for the proposed amendments.

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Question 5

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?

Comments to Question 5

We find these transitional amendments fairly complex in relation to their limited use.

Question 6

Do you have any other comments on the proposals?

Comments to Question 6

No.

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