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19 June 2004

CL 35

Ms. Sandra Thompson
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Ms. Sandra Thompson:

The International Accounting Standards Review Committee (IASRC) of the Korea Accounting Standards Board (KASB) is pleased to send its comments on the ED of Proposed Amendments to IAS 39 Financial Instrument: Recognition and Measurement, *The Fair Value Option*.

The enclosed comments are those of the IASRC and do not represent an official position of the KASB. The official position of the KASB is determined only after extensive due process and deliberation, to which this letter has not been subjected.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may forward your inquiries either to Mr. Jae-ho Kim (jhkim@kasb.or.kr) or Mr. Kyoung-chun Yu (yukc@kasb.or.kr), both of whom are full-time research staff of the KASB.

Best regards,

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Dr. Suk Sig Lim
Chairman, International Accounting Standards Review Committee
Vice Chairman, Korea Accounting Standards Board

Encl: IASRC comments on the ED of Proposed Amendments to IAS 39 Financial Instrument: Recognition and Measurement, *The Fair Value Option*

IASRC Comments on the ED of Proposed Amendments to IAS 39 Financial Instrument: Recognition and Measurement,
The Fair Value Option

■ Question 1

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

In principle, the IASRC agrees that the fair value option be amended so as to limit its use while preserving the key benefits of the option. Nonetheless, the IASRC would like to suggest stricter limits than those proposed in the ED as the following, so that the fair value option may not be abused.

(1) Paragraph 9? (?) is not a stand-alone condition but a common premise of the entire paragraph 9? . Accordingly, the IASRC suggests that paragraph 9? (?) be relocated right after the first sentence of the entire paragraph 9? .

(2) To clarify the meaning, the IASRC suggests that the phrase "with changes in fair value recognised in profit or loss" be added after the first sentence of paragraph 9? (ii).

(3) In paragraph 9(a)(i), "trading" seems to be defined on the basis of "term", which is deficient in the meaning of trading. The IASRC suggests that the definition of "trading" in paragraph 9(a)(i) directly include the core concepts of "active and frequent buying and selling" and "with the objective of generating a profit from short-term fluctuations in price" set out in IAS39.AG14.

■ 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?

The IASRC is not 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 ED.

■ 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?

According to the ED, only if the fair value of the financial asset or financial liability is ***verifiable***, it can be designated by the entity as at fair value through profit or loss in accordance with paragraph 9? . It is the IASRC's opinion that the concept of verifiability is not clear enough that such a concept may cause unnecessary confusion in practice. Therefore, the IASRC proposes to revise the sentence without the verifiability concept as follows:

"only if the ***observed price*** of the financial asset or financial liability to be designated ***exists in an active market***, it can be designated by the entity as at fair value through profit or loss"

■ 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?

The ED proposes that in the case of paragraphs 9? (ii) and (iii), the designation of a financial asset or financial liability as at fair value through profit or loss requires identification of the offsetting exposure; however, it does not require such identification in the case of paragraph 9? (i). In order to maintain consistency among paragraphs 9? (i), (ii) and (iii), the IASRC suggests that also in the case of paragraph 9? (i), the designation of a financial asset or financial liability as at fair value through profit or loss requires the identification of the offsetting exposure.

■ 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?

The IASRC agrees with the proposed transitional requirements.