

EUROSYSTEME

LE GOUVERNEUR

Paris,
3rd, August 2004

Dear Sir David

The Commission Bancaire and the Banque de France welcome the opportunity to comment on this exposure draft on the fair value option.

Financial institutions will be among the entities most concerned by the implementation of IAS 39. This standard will have a very significant impact on their accounting and risk management policies and practices and we are concerned that this could have potentially negative systemic implications for the European financial system and economic situation, arising from problems raised by the option, among which the most prominent ones appear to us to be: the divergence it will create with the US standards, the lack of compatibility between financial accounts, on a worldwide as well as on an European basis, the possibility given to mark to market loans and liabilities which are not fully hedged, thus possibly creating inconsistency with the effective financial situation of the firm. Regarding this last matter, the increase of own funds resulting automatically from a down pricing of the liabilities of a firm facing financial difficulties seems to be a concerning example.

Within the standard, we believe that the fair value option could have a negative impact and we supported the comments from the ECB expressing concerns regarding the potentially extensive use of the fair value option.

In that respect, we appreciate the IASB's attempt to give a response to these concerns by proposing a limitation of the option, mainly, if not only, through the introduction of the verifiability concept, as the proposed categories which define the scope of the fair value option do not seem to limit its potential use. From a general point of view, we believe that a frank dialogue between financial supervisors and accounting regulators is highly necessary and we are looking forward to developing further this exchange of views with the Board, notably through our participation to the Basel Committee on Banking Supervision and to the Committee of European Banking Supervisors.

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However, having in mind the objective of financial stability, we still believe that the option should be eliminated for the following reasons:

- 1- We regard the option as harming both the objectives of comparability of accounts and convergence with the US accounting standards.
- 2- As a principle, we do not favor options as far as accounting rules are concerned, as it offers extensive room for accounting arbitrage. We believe that this position is consistent with the IASB's project to reduce options within the standards.
- 3- As stated in BC 5 to BC 7 of the Exposure Draft and corroborated by our discussions with the industry, we understand that the rationale for the fair value option is to offer flexibility on the implementation of other provisions of IAS 39, namely hedge accounting and embedded derivatives, or to provide a relief to accounting difficulties due to the mixed accounting model or to inconsistencies between two standards. In that kind of situation, we believe that the fair value option should not constitute a fallback substitute to more adequately designed accounting provisions when necessary, remaining consistent with sound management practices. In that perspective, we welcome the Board's decision to set up a working group to examine hedge accounting issues on IAS 39. We trust that these issues should be addressed in the short term. Otherwise, we tend to believe that it would be inconsistent for a standard to design at the same time stringent accounting provisions and the ways not to apply these provisions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. Noyer', with a horizontal line underneath.

Christian NOYER