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Le Président

JFL/IGG
N°30

PARIS, 21 AVRIL 2009

International Accounting Standards Board
30 Cannon Street

LONDON EC4M 6XH
UNITED KINGDOM

Re: Request for views on Proposed FASB Amendments on Fair Value Measurement and to Impairment Requirements for Certain Investments in Debt and Equity Securities

Dear Sir or Madam,

I am writing on behalf of the Conseil National de la Comptabilité (CNC) to express our views on the above-mentioned Request for views (Rfv).

The IASB is seeking views from interested parties on two proposals from the US Financial Accounting Standards Board (FASB) that deal with guidance on fair value measurement and impairments of certain investments in securities. As the FASB proposals have been approved after significant amendments since the issuance of the Rfv by the IASB, our comments will mainly refer to the final FSPs issued by the FASB, i.e. FSP FAS 157-4[1], FSP FAS 115-2 and 124-2[2] and FSP FAS 107-1 and APB 28-1[3]. However, we will also refer to the proposed FSPs when we think it is relevant.

First of all, we have some concerns about the process followed :

- As reminded in the Request for views, the FASB issued proposed guidance on fair value and impairments of certain financial instruments without involving the IASB whereas both boards reiterated the "importance of working co-operatively and in an internationally co-ordinated manner to consider accounting issues emerging from the global financial crisis" in October 2008.
- We would have preferred that both boards worked closely on a comprehensive approach to

[1] FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly."

[2] FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments."

[3] FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments."

improve their standards on financial instruments as soon as possible after the beginning of the financial crisis.

- Moreover we are concerned that unilateral changes to US GAAP requirements could lead to increase differences between IFRS and US GAAP especially regarding recognition of impairment loss in profit or loss.

Additionally, we welcome the IASB and FASB joint comprehensive project to undertake the replacement of existing financial instruments standards and ask the IASB to take into account the comments expressed in our previous letter related to financial instruments[4] which notably highlighted that accounting models should not ignore the relevant "business models". Moreover, this comprehensive project will bring an opportunity to deal with specific issues raised by the European Commission in October 2008[5], in particular fair value option and synthetic CDOs.

Having said that, our comments on the new guidance approved by the FASB are as follows :

Fair Value Measurement

We understand from the new guidance issued by the FASB (FSP FAS 157-4) that :

- It includes additional factors to be analysed, taking into account their significance and relevance, when determining whether a market is active or not ;
- In case of inactive markets, entities shall determine whether a recent transaction was orderly or not based on the weight of evidence ;
- It reaffirms that the measurement objective is to determine fair value under the current market conditions and not under a hypothetical active market. Additionally, it indicates that determining fair value in inactive markets involves significant judgment in determining relevance of inputs.

We believe that the final version of the FSP FAS 157-4 brings guidance on fair value measurement in inactive markets that is globally similar to the guidance published by the IASB's Expert Advisory Panel in October 2008.

Since both standards emphasise that determining fair value in a market that has become inactive requires the use of significant judgment, we do not expect significant divergence in practice on fair value measurements between US GAAP and IFRS.

However, in order to avoid any doubt, we would encourage the Board to confirm that FASB's guidance is consistent with IFRS and the EAP document and if necessary to consider making corresponding changes in the EAP document.

[4] See CNC's comment letter to DP Reducing Complexity in Reporting Financial Instruments (18 September 2008)

[5] See EC's letter to IASB « further issues related to IAS 39 » (27 October 2008)

Regarding the guidance initially proposed in the FSP FAS 157-e, we understand that the FASB considered it could be seen as moving away from the objective of a fair value measurement as currently defined in FAS 157. However, as already expressed in our recent letter[6], some or all of these proposals, such as aspects on liquidity and hypothetical markets, are issues that the IASB should explore in its fair value measurement and financial instruments standard review projects.

Impairment

We understand that, among other things, the FSP FAS 115-2 & FAS 124-2 on impairment introduce a bifurcation of impairment loss on debt securities (unless it is probable that the entity will sell the debt security before recovery of its cost basis, in which case the impairment is not bifurcated) :

- The amount of impairment related to credit loss is recognised in profit or loss
- The residual amount is posted in OCI

This new bifurcation approach is consistent with amendments requested by CEBS in June 2008[7] and by the European Commission in October 2008[5] : "the approach for available for sale debt securities should be changed. Impairment losses should be determined similarly to the way impairment is recognised for held to maturity instruments and loans and receivables; the balance of the fair value decline in excess of incurred credit losses would be maintained in equity. Thus, only credit losses would result in impairment losses in income statement".

As already expressed in previous comment letters[8], we strongly support harmonising impairment rules for available for sale debt instruments with those applied to financial assets carried at amortised cost in order to provide a more appropriate and comparable information in the income statement.

Although we acknowledge that US GAAP and IFRS impairment models are not perfectly similar (regarding HTM investments for instance), our view is that changes limited to available for sale debt instruments, which is a major issue as mentioned above, could be achieved without significant and costly effort. We believe that the IASB could achieve a useful improvement to IAS 39 impairment rules by simply referring to impairment rules applicable to financial assets carried at amortised cost in a paragraph dealing with the amount of impairment loss recognised in profit or loss for debt instruments classified as available for sale[9]. This amendment could be immediately effective in order to avoid increasing divergences between US GAAP and IFRS regarding impairment accounting for debt instruments securities.

[6] CNC's letter to the Financial Crisis Advisory Group's request for input (3 April 2009)

[7] Committee of European Banking Supervisors "Report on issues regarding the valuation of complex and illiquid financial instruments" 18 June 2008 – see §40-44 Impairment and possible changes to impairment rules for assets available for sale

[8] CNC's comment letter to exposure draft of proposed amendments to IFRS 7 « investments in Debt Instruments » (15 January 2009) ; CNC's letter to the Financial Crisis Advisory Group's request for input (3 April 2009)

[9] For instance, the scope of paragraphs 63-65 of IAS 39 could be extended to AFS debt instruments and paragraphs 67-69 could be limited to AFS equity instruments. Thus, paragraph 70 could be deleted.

Furthermore, this change would not undermine a more in depth review of impairment principles as part of the more comprehensive project on financial instruments, including :

i) the review and replacement (or complement) of the current incurred loss approach used to determine impairment related to credit risk,

ii) the review of the circumstances leading to impairment. For this purpose, in particular regarding the impairment of equity instruments, the IASB could usefully consider the FASB's initial proposal, and

iii) the possibility of reversing impairment on equity instruments.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-François Lepetit