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The Director General delegate

Monday, January 19th, 2009

FBF response to the Exposure Draft "Embedded Derivatives Proposed Amendments to IFRIC 9 and IAS 39".

Dear Sir,

The French Banking Federation is pleased to comment on the Exposure Draft « Embedded Derivatives - proposed amendments to IFRIC 9 and IAS 39".

We welcome the initiative of the IASB to clarify the issue raised at the roundtables meetings and related to the interaction between the reclassification amendments to IAS 39 and IFRIC 9 "Reassessment of Embedded Derivatives". Our answers to the exposure draft are set out in the Appendix to this letter.

We agree with the conclusions reached in the ED that:

- an entity shall assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category;
- if an entity is unable to separate a non-closely related embedded derivative from the host contract, the entire hybrid financial instrument must not be reclassified out of the fair value through profit and loss category.

We believe that the assessment should be made on the basis of the circumstances that existed at the later date of the initial recognition date and the date of change in terms of the contract to take into consideration significant change in terms of contract occurred between initial recognition and reclassification.

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

Yours sincerely,

Pierre de Lauzun

Sir David TWEEDIE
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Appendix

Question 1

The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category. Do you agree with that clarification? If not, why? What would you propose instead, and why?

The FBF agrees with the clarification proposed in the ED that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category

Question 2

The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract. Do you agree with that proposal? If not, why? What would you propose instead, and why?

The FBF agrees with the proposal that a reassessment on reclassification should be made on the basis of circumstances that existed at the inception of the contract. However, the FBF believes that the case of significant change in terms of contract that might occur between initial recognition and reclassification should be taken into consideration. Thus, paragraph 7A should refer to the later date of the initial recognition date and the date of the change in terms of the contract.

Question 3

The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category. Do you agree with that proposal? If not, why? What would you propose instead, and why?

The FBF agrees with the proposition added to paragraph 12 of IAS 39 which clarifies that if an embedded derivative is not closely related to the host contract but it cannot be measured separately, the entire hybrid financial instrument must remain in the fair value through profit and loss category.

Question 4

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

The FBF agrees with the proposed effective date as the FBF understands that the IASB wants to clarify the uncertainty arisen that could have an effect on reclassifications made under the amendment to IAS 39.

Question 5

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The FBF agrees with the transition requirements.