THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS

Ref: 08-658

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Comments regarding IASB's Discussion Paper on Reducing Complexity in Reporting Financial Instruments

Dear Mr. Enevoldsen,

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft comment letter on IASB Discussion Paper on Reducing Complexity in Reporting Financial Instruments.

We thank you for this opportunity to comment on your draft letter and we are therefore pleased to provide you with the following comments:

- CESR is supportive of accounting standards that are principles-based and agree that in some circumstances application of the recognition, measurement, and requirements in International Accounting Standard No. 39 Financial Instruments: Recognition and Measurement (IAS 39) may result in unnecessary confusion for preparers and users of financial statements. The confusion is often the result of IAS 39's existing measurement options and an insufficient level of clarity surrounding the application of particular accounting methodologies. CESR believe these deficiencies contribute to confusion and undue complexity in financial reporting for both preparers and users of financial statements.

- CESR agrees that the current financial reporting standard on recognition and measurement of financial instruments requires improvement to meet the concerns of users of financial statements. Therefore, CESR are supportive of improving the current accounting standard IAS 39 to provide clearer principles with an appropriate level of application guidance such that the accounting of financial instruments results in more relevant and understandable information for users of financial statements. CESR also agree that any such improvements should consider the cost associated with such potential changes and be mindful of avoidable complexity.

- CESR has identified two major issues we would like to comment on in the EFRAG Draft comment letter – the need for at long term objective for the accounting for financial instruments and the number of categories of financial instruments.

- CESR believe that in order to change IAS 39 over time in a step by step approach a long term objective is needed. CESR believe that a single measurement attribute for all financial instruments such as fair value is a good goal for the future and we would like to support the effort of achieving such a goal. CESR do, however, strongly believe that further work on fair value measurement is needed before it will be possible to reach a common understanding for this future long term goal. Just to mention a few of the areas where more work could add value; this could be areas such as use of valuation techniques, disclosures, use of assumptions, etc. CESR note that the IASB has set up an Expert Panel on Valuation that also deals with these issues.

- There are many ways to simplify the current requirements in this respect, but CESR do believe the accounting for and reporting of financial instruments should be based on the underlying facts and circumstances. This could either be done based on the "business model" applied by the entity or based on the attributes and nature of the financial instrument. CESR favours the latter.

  The second issue CESR would like to provide the following views on the proposal to reduce the categories in IAS 39:

  - In general CESR is supportive of the aim of reducing complexity in reporting for financial instruments by reducing the number of categories. This would in the view of CESR contribute to simplifying the accounting for financial instruments.
  - CESR is especially considering the conceptual support for having categories with measurement at fair value to profit and loss account and fair value to equity (AFS). Therefore CESR welcomes the proposal to consider the removal of the AFS category.
  - On the other hand CESR has some doubts on the proposal to remove the HTM category.

  CESR would recommend that a thorough analysis is conducted before proposing the elimination of any category.

- CESR would in this connection recommend that the EFRAG comment letter clearly states whether EFRAG at this stage supports the need for a long term objective for accounting for financial instruments. In addition CESR would also recommend that the comment letter from EFRAG clearly states whether EFRAG supports the reduction of the number of categories for accounting for financial instruments with the aim of reducing complexity for reporting financial instruments, and also whether EFRAG believes that one or more of the current categories for financial instruments could be deleted, either on a short term or at a long term basis.

- In the draft comment letter from EFRAG some suggestions are made as to how to improve the current mixed measurement model in order to enhance the information provided to users. CESR is of the view that such suggestions are a good contribution to the proactive activities on accounting in Europe and that such suggestions could be useful in the further development of the current project.

I should be happy to discuss all these issues further with you.

Yours sincerely,

Fernando Restoy
Chair of CESR-Fin