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The Director General delegate

Paris, July 6th 2010

FBF Response to EFRAG's draft comment letter on the IASB ED Fair Value Option for Financial Liabilities

Dear Mr Enevoldsen,

The French Banking Federation welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB ED Fair Value Option for Financial Liabilities.

Compared to the comments to the DP, EFRAG has re-evaluated its position to agree that portion of fair value attributable to change in own credit risk of a liability should be presented in OCI. EFRAG motivates its decision with the opinion of investors who would use information of own credit risk for determining the overall riskiness of the entity and for comparing entities in the same industry as stated in BC 26 and BC 27 of the ED.

The FBF questions this change of position. The FBF has always criticized such counter intuitive proposal where gains are reported when the credit quality of the borrower's liability declines and conversely, improvement in credit quality leads to recognise losses. We do not believe that it would provide decision-useful information for liabilities measured at fair value option and that it would help to understand the capacity of the entity to generate cash flows.

We advocate for the frozen credit approach as we believe that it is consistent with the way counterparties would price the entity's liabilities and with their underlying business model.

We can admit only under rare circumstances when gains and losses on a held for trading liabilities issued for short term taking benefits are realizable, own credit risk could be reported on to the P&L.

Reclassification of changes in own credit spread from OCI to P&L questions the distinction between realised and unrealised gains and losses and the promotion of a unique statement of comprehensive income. As already expressed previously, we are strongly opposed to such unique statement as it would not accurately and clearly represent the performance of the entity.

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Moreover, we are opposed to the prohibition of recycling of gains and losses for financial instruments measured at fair value option. We would like to remind our opposition to the prohibition of recycling for equity instruments measured at fair value option under IFRS 9.

For financial liabilities measured at fair value option, recognizing in OCI the portion of fair value change attributable to credit risk will generate undue volatility in OCI and will not accurately portray measurement of financial liabilities. The going concern principle should prohibit taking into consideration the probability of failure of an entity until the extinction of its obligation. Therefore, the most relevant measure for financial liabilities not actively traded is the repayment of the obligation, that is to say the settlement value. A transfer of liabilities of an entity does not depend on the will of the entity but rather on the permission and the condition given by the creditors which are linked to the credit standing of the entity.

For these reasons, we urge EFRAG to reconsider its position.

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

Yours sincerely,

Pierre de Lauzun