

Mr Alexander Schaub,
Director General Internal
Markets DG,
European Commission

VIA E-MAIL: Alexander.Schaub@cec.eu.int

15 September 2004

Dear Mr Schaub,

EU ADOPTION OF IAS 39

The next Accounting Regulatory Committee will be considering the adoption of IAS 39 either in its full form (with exclusion from the entire standard for banks if need be) or alternatively a partial adoption. We write to indicate a strong level of support from the UK corporate sector for full adoption.

General principles

The Association of Corporate Treasurers would like to see the unequivocal adoption of IAS 39 in full within the EU, notwithstanding the standard's admitted flaws and the real reservations many of us hold and which are to be addressed by a new IASB working group.

We greatly deprecate the idea that the EU Commission seems to intend effectively to take upon itself the role of standard setting, and what is more, to aggravate matters by introducing changes without allowing for proper review and consultation processes. The independence of standard setters and proper consultation process are critical to wide acceptance of standards.

The Association of Corporate Treasurers would deeply regret any move towards a "European GAAP". Such a departure from International Standards would destroy a substantial portion of the benefits to companies from adoption of the new package of Standards, namely their acceptability to US regulatory authorities, and their world wide applicability.

Specific proposals

At the last meeting of the ARC certain deletions from the standard were proposed to satisfy the demands from sections of the banking community, and additionally a deletion was made to the fair value through profit and loss definition (para 9 of IAS 39) so that this option would not be available in respect of financial liabilities. We are most concerned with the second point.

The original intent of the standard was to allow “natural offsets” through the optional fair valuing of any financial assets and financial liabilities, and this remains potentially a very valuable and wholly reasonable feature for normal corporates.

The IASB has recently consulted on changes to this so called fair value option. It has yet to publish its conclusion. However, the responses as published on the IASB website are overwhelmingly in favour of retaining this option and we strongly support this. It goes a long way to solving some other problems with IAS 39, which would be more manifest without it.

Course of action

We urge the ARC and the Commission to support adoption of the full standard (with exclusion from the entire standard for banks if need be). If, however, it is considered essential to address the banks’ portfolio hedging issue, we urge the EU not to restrict the availability of the fair-value option.

In any case, a number of companies and, indeed banks, have said that they would publish under full IAS 39 in order that they should not be disadvantaged in their move to international accounting standards by the EU's equivocation. In particular, such companies look to the US and other authorities not to require separate or reconciled accounts under local GAAP. We strongly believe that those far-sighted companies should not be *required* additionally to produce accounts under what we can only refer to as “EU GAAP”.

Yours sincerely,

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The Association of Corporate Treasurers (ACT)

The ACT was formed in 1979 to encourage and promote the study and practice of corporate finance and treasury management and to educate those involved in the field. Today, it is an organisation of professionals in corporate finance, risk and cash management operating internationally. A professional body and not a trade association, it has over 3,000 Fellows, Members and Associate Members. With more than 1,200 students in more than 40 countries, its education and examination syllabuses are recognised as the global standard setters for treasury education. Members of the Association work in many fields. The majority of Fellows work in large UK public companies, responsible for the treasury and corporate finance functions.