CMFB

COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

Dear Sir David Tweedie, dear Mr. Paul Rutteman

9 July 2004

Subject: CMFB opinion on the Fair Value Option under IAS 39

The Committee on Monetary, Financial and Balance of Payment Statistics (CMFB) is an advisory committee established in 1991 to assist the European Commission in drawing up and implementing work programmes concerning monetary, financial and balance of payments statistics[1]. It also offers advice on these areas of statistics and on their links with other areas of economic statistics, in particular national accounts and government deficit and debt. It consists of senior managers in charge of economic and financial statistics at the national statistical institutions (NSIs), national central banks (NCBs), the European Commission (Eurostat) and the ECB. In view of its capacity to offer advice on matters affecting any of the above-mentioned statistics, the CMFB has mandated the Task Force on Accounting and Statistics, a joint European Commission (Eurostat)/ECB group, to study the impact of expected changes in EU accounting law and practice on European Official Statistics.

The CMFB considers it appropriate to deliver an opinion on the Fair Value Option under the IASB's Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement. The CMFB opinion acknowledges that IAS/IFRS represents a potential benchmark standard for streamlining companies' reporting requirements. In itself, the CMFB welcomes the harmonisation of financial reporting by companies, as this facilitates the aggregation of the data derived from these reports to macro-economic statistics and their international and inter-temporal comparability. A crucial feature of national accounts and related macro-economic statistics is that they provide a consistent financial report of *all* economic agents, that is, including governments, households and transactions with the rest of the world. As you will understand, the transactions and balance sheet positions of all these agents, particularly buyers and sellers, and debtors and creditors, need to be recorded symmetrically, in accordance with the world-

[1] Council Decision 91/115/EEC

wide national accounting standard SNA93 and its legally binding complement in Europe, ESA95.[2] For instance, if a valuation rule for certain financial instruments is applied to creditors, the same rule must be applied to debtors.

Notwithstanding this generally positive opinion of the CMFB on the new IFRS in general, the Exposure Draft of Proposed Amendments to IAS 39 poses some difficulties. In particular, the CMFB is concerned that the proposed tightening of the fair value option, whilst welcome in itself, is not sufficient for statistical purposes. The CMFB opinion advocates a clear separation between negotiable and non-negotiable instruments and allowing only the former to qualify for fair value accounting, in order to obviate the need for supplementary statistical reporting requirements with the concomitantly higher total administrative burden on business. The CMFB would also welcome recommendations leading to further harmonisation of the format and presentation of balance sheets and income statements, in order to strengthen the time consistency and the comparability across firms of the disclosed data.

Moreover, of particular concern is the possibility that listed companies in the EU can be permitted or required to apply the IAS in their individual accounts while non-listed companies may be permitted or required to maintain the historical cost accounting framework. Differences in the approaches taken by Member States and in the timing of the implementation at the national level will have a disruptive impact on the quality of EU statistics for crucial policy areas such as the Excessive Deficit Procedure and the EU-Contributions. Moreover, Fair Value Accounting raises the more general concern of the comparability of statistics based on discretionary (non-harmonised) valuation criteria.

In conclusion, I am sure you agree that the preparation of common reporting formats for all EU companies, within a harmonised framework for the individual accounts, would improve the comparability, the transparency and the wide acceptance of the statistical information drawn in the framework of the new standards, as well as reduce the administrative burden.

We trust that you will take account of the CMFB opinion on this matter.

(Signed)

J. Cordier

Chairman of the Committee on Monetary, Financial and Balance of Payments Statistics

[2] Council Regulation (EC) 2223/96.