

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2010:05

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: ED/2010/4 Fair Value Option for Financial Liabilities

The Swedish Financial Reporting Board is responding to your invitation to comment on the International Accounting Standard Board's exposure draft on fair value option for financial liabilities.

We are greatly disappointed that the frozen credit spread approach was not chosen as the basis for excluding changes in the fair value of own credit spread from remeasurement. We fail to understand why the IASB instead has chosen to recognise changes in own credit spreads in the statement of financial position when the IASB in BC7 recognises that "an entity generally will not realise the effects of changes in the liability's credit risk unless the liability is held for trading."

The main reason for excluding the changes in credit spreads from the income statement is that the entity will otherwise recognise gains when the own credit quality deteriorates which in turn has a positive effect on the net assets. What should be of concern when changes in own credit spread are not realisable is that the entity is required to repay the nominal amount of the liability, regardless of if the value of the contractual cash-flows reflect the present credit risk or not. Information regarding the changes in own credit spread could instead be given in the notes; it should not affect the financial position of the entity. We therefore urge the IASB to reconsider its decision.

The concerns that some respondents have had with the frozen credit spread are in our view not relevant. This lack of relevance is due to the purpose of using the fair value option, which normally is to reduce a measurement mismatch, i.e. the same basic purpose as hedge accounting. Therefore the proposed frozen credit spread approach is not something new; the situation is equal or similar to the situation with respect to partial fair value hedges and portfolio hedges using the principles for macro hedge accounting. However, attention must be paid to the possibility that the own credit spread will differ from that of others. Our belief is that a frozen credit spread approach recognises the two different purposes that may exist for a single financial instrument, i.e. to manage the reference rate at fair value while collecting a steady interest income from the net of lending and funding activities in the banking book (i.e. on an amortised cost basis).



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If the IASB despite our concerns should decide to proceed with the proposal, we also have the following concerns:

One or two step approach

We believe that a net approach should be used when changes in own credit spread are recognised, i.e. only the changes in fair value of the credit spread are recognised in OCI. We see no merit in the double entry technique proposed.

Effective date and transition

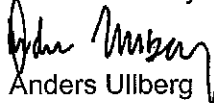
We believe that it is important to evaluate the transitional arrangements for financial instruments together. It is not possible to just focus on analysing a small part of the whole package for the replacement of IAS 39. Furthermore there might also be implications related to other standards that need to be considered at the same time (e.g. Insurance).

Finally, we note with concern the proposal to increase the use of classifying items into other comprehensive income before the IASB from a conceptual standpoint has reached a decision of which items that should be presented in other comprehensive income and which of those items that should be reclassified into profit and loss. We expect to further comment on this matter when we submit our comment letter on ED/2010/5 Presentation of Items of Other Comprehensive Income.

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, 18 June 2010

Yours sincerely



Anders Ullberg
Chairman