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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Sir David,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on Exposure Draft ED/2010/4 *Fair Value Option for Financial Liabilities* (ED). Principal authors of this comment letter were Peter Bitzyk, Julius Gaugusch, Friedrich Hief, Andreas Gilly, Erich Kandler, Heiner Klein, Ernst Schönhuber, and Roland Nessmann.

General remarks

We agree with the IASB's intention to replace IAS 39 Financial Instruments: Recognition and Measurement with new Standards, which will present the economic value of assets, liabilities and results of transactions in a better way than IAS 39 does, subject to cost/benefit constraints as well as practical considerations and availability of data.

The main goal of the new rules – as stated in the Basis for Conclusion of the ED – should be to accompany the recently published IFRS 9, which introduced new rules for classification and measurement of financial assets, with new rules for classification and measurement of financial liabilities.

We strongly encourage the IASB to stick to the way in which it has based the new rules on an extensive outreach programme to gather feedback on this topic. In this way, the real needs of interested parties can be met, and unnecessary burdens can be avoided.

We are broadly speaking not in favour of fair valuing liabilities below the expected repayment amount except in rare circumstances (e.g., trading portfolio), since users of financial statements may be grossly misled about the actual future cash outflows.

Response to Questions in the ED

Question 1

Do you agree that for all liabilities designated under the fair value option, changes in the credit risk of the liability should not affect profit or loss? If you disagree, why?

We agree with the limitations on application as stated above.

Question 2

Or alternatively, do you believe that changes in the credit risk of the liability should not affect profit or loss unless such treatment would create a mismatch in profit or loss (in which case, the entire fair value change would be required to be presented in profit or loss)? Why?

As there are necessarily accounting mismatches between financial assets and financial liabilities arising from the different developments of the respective credit risks, we do not see a need for this option (see answers to Q1 and Q3).

Question 3

Do you agree that the portion of the fair value change that is attributable to changes in the credit risk of the liability should be presented in other comprehensive income? If not, why?

We agree.

Question 4

Do you agree that the two-step approach provides useful information to users of financial statements? If not, what would you propose instead and why?

We do not agree; we think that the one-step approach is more appropriate and reduces the complexity of the income statement. One question should also be addressed using a two-step approach: which fair value – with or without own credit spread – is to be included in income statement ratios?

Question 5

Do you believe that the one-step approach is preferable to the two-step approach? If so, why?

Yes, see our answer to Q 4.

Question 6

Do you believe that the effects of changes in the credit risk of the liability should be presented in equity (rather than in other comprehensive income)? If so, why?

From the conceptual point of view, changes in equity should arise from changes in the income statement or the statement of other comprehensive income, or from transactions with owners. Thus, the changes in own credit spread should be presented in the statement of other comprehensive income.

Question 7

Do you agree that gains or losses resulting from changes in a liability's credit risk included in other comprehensive income (or included in equity if you responded "yes" to Q 6) should not be reclassified to profit or loss? If not, why and in what circumstances should they be reclassified?

In the interests of sound accounting in future periods, these effects should be recycled; otherwise, it should be ensured that the effects are reclassified from other comprehensive income to retained earnings once the liability eliminates.

Question 8

For the purpose of the proposals in this exposure draft, do you agree that the guidance in IFRS 7 should be used for determining the amount of the change in fair value that is attributable to changes in a liability's credit risk? If not, what would you propose instead and why?

We agree; nevertheless, Illustrative examples, practical considerations and further guidance are lacking.

Question 9

Do you agree with the proposals related to early adoption? If not, what would you propose instead and why? How would those proposals address the concerns about comparability?

There is broad agreement that the current treatment of fair value changes resulting from changes in own credit spread does not lead to useful information. The changes proposed in the ED are not interlinked with the rest of IFRS 9. Thus, we think that there should be the option of ending the current treatment of changes in own credit risk as soon as possible (without being forced to apply other parts

of IFRS 9). We therefore recommend allowing early adoption of this ED independently of the adoption of other parts of IFRS 9. This could easily be done, e.g., by including the rules of the ED in IAS 39 as well.

Question 10

Do you agree with the proposed transition requirements? If not, what transition approach would you propose instead and why?

We agree.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl
Chairman