Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

IASB
30 Cannon Street
London EC4M 6XH
United Kingdom
iasb@iasb.org

20 April 2009

Re: *IASB Request for views on FASB Amendments on Fair Value Measurement and FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities*

Dear Sir,

We are pleased to provide our comments on IASB Request for views on FASB Staff Positions, issued last March, that proposed some changes to US GAAP about the fair value measurement (FAS 157) and the accounting for impairment of securities (FAS 115 and other amendments).

The first final Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides guidelines for determining fair values when there is no active market or the price inputs being used indicate distressed sales. Furthermore, it requires the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.
The other final Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, brings relevant changes to the recognition of impairment on debt securities. In particular, it amends the other-than-temporary impairment guidance in US GAAP for debt securities, clarifying the treatment of the credit and non-credit components of impaired debt securities that are not expected to be sold. In addition, it improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements.

We do not believe it is appropriate to amend immediately the IAS 39, solely to converge to the above-mentioned FASB Staff Positions. That would solely represent spot changes to avoid any further difference versus US GAAP on the fair value measurement and the accounting for impairment of debt instruments, unless this difference was very critical for the stability and transparency of the financial markets. Furthermore, such changes do not allow that the issues regarding the accounting treatment of financial instruments highlighted by the financial market crisis are fully dealt with.

In addition, we note that the overnight changes to the current accounting requirements that are actually under revision, IAS 39 existing standard replacement, could have as result only a further weakening of users' reliance on accounting rules.

In this light, we believe that the efforts should be addressed to conclude as soon as possible the revision and simplification of accounting principles for financial instruments. We strongly support that the IASB and the FASB work together to come rapidly to define an homogeneous set of accounting requirements for financial instruments, so as to satisfy the G-20's recommendations. This process should permit entities to prepare their 2009 financial reports in accordance with such re-examined and simplified requirements.

With respect to the IAS 39 replacement project, we wish to point out some aspects that in our opinion are relevant and should be addressed:

1. Fair value measurement

   It seems that fair value measurement rules applicable both to equity and debt instruments in inactive or dislocated markets could be enhanced, in order to favour the use of level 3 fair value in presence of financial instruments quoted in inactive markets.

   Regarding the equity instruments, when the market becomes dislocated, the fair value could be determined using valuation techniques. If the range of reasonable fair value estimates is significant and the probability of the various estimates cannot be reasonably assessed, the equity instrument should measured at cost or at the latest fair value available before the market became dislocated;

2. Impairment of financial instruments

   – As to equity instruments, to permit that the impairment rules be applied only when losses are not temporary and to specify the factors to take into consideration to define a loss as non temporary. In addition, it could be set up that the impairment losses could be reversed, with the amount of the reversal recognised in the income statement, whether the conditions, which resulted in the recognition of the impairment due to the current market situation, are no longer applicable.
   – As to debt instruments available for sale, to permit that the impairment losses are determined similarly to held to maturity instruments (HTM) and loans and receivables (L&R). The balance of the fair value decline in excess of incurred losses should be maintained in equity.

3. Fair value option

   Financial instruments qualifying for being classified in L&R or HTM, that upon initial recognition were designated by the entity as at fair value trough profit or loss (FVTPL) for accounting mismatch reasons, they could be reclassified out of the FVTPL category, when the liability is settled or the asset is realized.

4. Tainting rule

   We suggest either to remove the tainting rule or at least to mitigate its effects. Possibilities of reclassification provided by the recent amendment to IAS 39 might result not useful if not accompanied by a revision of the tainting rule. A relaxation of the tainting rule might be achieved by prohibiting for 2 years to classify additional financial instruments into the HTM, but not obliging the entity to reclassify out of HTM all financial instruments.

Yours sincerely,

Angelo Casò
(OIC Chairman)