Views of the Basel Committee on the IASB’s Fair Value Option Proposal

Dear Sir David:

In December, the Committee evaluated the preliminary first draft of the Board’s “possible new approach” to a fair value option and advised you that certain concerns would need to be addressed before this proposal could be supported. However, the Committee also recognised the importance of finding a way forward and indicated its intention to continue a constructive dialogue with you in hopes of achieving a mutually acceptable outcome.

The Committee met on 30 March to review what progress had been made on this project since December and to determine its views on both the process and its outcome to date.

Over the last three months Committee representatives have closely observed and participated in various aspects of the IASB’s due process including the March Round Tables. Throughout, they have noted the efforts of IASB staff and Board members to improve communication, to better understand the views of banking regulators and to achieve the required balance among the interests of all stakeholders affected by the fair value option proposal.

With respect to the current version of the proposal, the Committee is pleased to see the incorporation of more explicit references to risk management as a context for use of the option, strengthened language around reliability, and new, robust disclosures. Taken together, these elements place reasonable expectations on enterprises wishing to use the option. The expanded discussion of the role of prudential regulators has also been viewed as a positive change.

Although the Board has not been able to address the Committee’s longstanding concern regarding recognition of gains arising from deterioration in own credit standing, the Committee has been advised that this topic now appears on the agenda of the new Financial Instruments Working Group where it can be studied further in the context of broader improvements to IAS 39.
In view of these developments, the Committee notes that essential concerns have been addressed and supports a successful and timely conclusion of this important project.

Yours sincerely,

Jaime Caruana