

**Technical Director  
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International Federation of Accountants  
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**By email to: [edcomments@ifac.org](mailto:edcomments@ifac.org) and [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)**

**July 2009**

Dear Ms Fox,

**Comment on Exposure Draft, ED 38, “Financial Instruments: Recognition and Measurement”**

The Dutch Local Government Accounting Standards Board (Commissie BVV) is pleased to present its comment on the ED 38, “Financial Instruments: Recognition and Measurement”

The Dutch local governments are granting concessionary loans below market terms to local non-profit-entities. They also issue financial guarantee contracts, mostly without any fee charged, to those local non-profit-entities. The present valuation is at historical costs. The financial guarantee contracts are presented in the notes to the financial statements.

The Exposure Draft “Financial Instruments: Recognition and Measurement” proposes that any difference between the fair value of a loan and the transaction price is treated as an expense in surplus at the initial recognition (AG88). For a financial guarantee the ED proposes that the financial guarantee is recognized at fair value in the statement of financial position and an expense is recognized in the statement of financial performance (AG95).

In our opinion valuation of these financial instruments at historical costs is also adequate, especially when the financial guarantee contracts - mostly issued without any fee charged - are presented in the notes to the financial statements.

We give the following explanation:

The concessionary loans, granted below market terms to local non-profit-entities, provide their benefits to the local non-profit-entities during the contracted loan. These non-profit-entities are mostly also yearly subsidized by the same local government and yearly provide social and/or cultural services to the local community. In our opinion the extra expense regarding the difference between the fair value of a concessionary loan and the transaction price in that case should be recognized according these benefits.

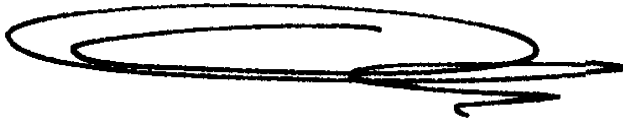
But in our opinion the extra costs of providing this information do not measure up to the extra insight. Also the granted concessionary loans are held to maturity by the local governments and a historical (old) fair value also soon loses its information value, so the historical costs provide adequate information.

The same consideration regards the financial guarantee contracts. But of course the information about the granted financial guarantee contracts - mostly issued without any fee charged – has to be presented in the notes to the financial statements.

We hope this comment is a helpful contribution to the development of the revised standard.

Sincerely

**Dutch Local Government Accounting Standards Board (Commissie BVV)**

A handwritten signature in black ink, consisting of several overlapping loops and a trailing flourish.

Willem G.J. Wijntjes

Chairman