



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



A F E P

Association Française des Entreprises Privées

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30 Cannon Street  
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Paris, January 10, 2008

**Re : ED Exposures Qualifying for Hedge Accounting**

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the exposure draft "Exposures Qualifying for Hedge Accounting".

Although we understand and support the objective the IASB has been pursuing in proposing the exposure-draft, we disagree with the very rule-based approach the IASB has chosen to adopt (BC11-12). Developing a principle would have had two advantages :

- to avoid any unintended consequences on existing practice, in accordance with the IASB's spelt out objective ; interpretations of the proposed amendments are already running loose to identify possible present practices that would no longer be considered acceptable ;
- to apply to non-financial instruments. Paragraph 82 prohibition on the grounds that portions are not easily identifiable in non-financial instruments would no longer apply. In some circumstances, particularly in commodity transactions, components of cash-flows can be identified independently.

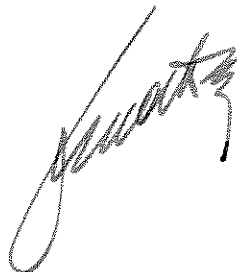
Another concern we wish to raise is the impact of the proposed amendments on the IAS 39 section carved out from the IFRS as adopted in the EU. They would, if finalised, create the same adoption issues as IAS 39 has ; we therefore would appreciate if the IASB first proposed IAS 39 amendments bringing clarifications in the four areas identified as potential candidates at the October 2007 IASB meeting ; these clarifications, and more particularly the clarification on how to hedge a liability whose effective interest is below benchmark, should in our view be adopted before, or at least at the same time, as the present ED amendments are.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact us.

Yours sincerely

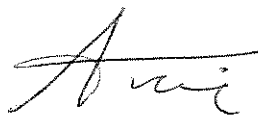
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**APPENDIX to ACTEO, AFEP & MEDEF letter commenting ED “Exposures Qualifying for Hedge Accounting – More detailed comments.**

**Questions 1 - 3 : Specifying risks eligible for hedge accounting, when portions of an instrument can be hedged and assessing the impact of the proposed amendments on present practice.**

We do not support the IASB in adopting a restrictive list of risks as proposed in paragraph 80Y. Hedge accounting should in our view be available for any economic risk exposure an entity faces and hedges. As a result we would prefer the IASB developing a principle rather than detailed and restrictive rules.

In addition, paragraph 80 Y raises the following issues :

- equity risk is not listed as part of the eligible risks ; however hedging only the equity risk born from holding an equity security denominated in a foreign currency, for example, should remain eligible to hedge accounting ;
- paragraph 80Y (e) is difficult to fully understand ; the example given suggests that not all risks associated with contractually specified cash flows are eligible. The ability of separately measuring the risk remains a supplementary condition. We believe that paragraph should be reworded and support EFRAG’s draft proposal to that purpose ;
- the relevance of limiting eligible portions to contractually specified cash flows is not evidenced.

We are also concerned by the limitation introduced in paragraph AG99E to hedging strategies based on options and the de facto prohibition to remain convergent with US GAAP in this area. In the silence of IAS 39 on this issue, many companies had referred to US GAAP literature and implemented hedge accounting in conformity with US GAAP guidelines. As a result AG99E would imply a change in the practice of many companies, in contradiction with the IASB set objective.

The “restrictive list” approach in the amendment is also a concern for us, as interpretations are already running loose, with the objective of identifying present practices that might no longer comply with the exact wording introduced in the proposed amendments. For example, would a partial term hedge still qualify (in accordance with 80Z(a)) although AG99E prohibits hedging cash flows that do not exist ? What are the implications of the amendment referring to cash flows only and no longer to fair value ? Although the IASB has clearly stated that the expected outcome of the amendment should not alter present practice, we are concerned that the amendments introduce many words that individually or in combination can be interpreted to trigger unintended changes in the existing practice. So called “IAS 39 experts” are already at work.

More importantly, we are concerned that cash flows of an instrument associated with a one-sided risk of that instrument are presented as a portion (paragraph 80Z(c)). Hedge accounting of the price risk in a contract for a commodity traded in an active market is very common (as well as relevant) practice at present and has not been analysed – until now - as contradicting the present prohibition in paragraph 82. If the IASB decides to confirm the amendments, it should at least lift the prohibition in paragraph 82 and generalise its approach to non-financial instruments.

If the IASB confirms that no principle can be developed at this stage, we would much prefer the IASB retaining the existing paragraph 81 and supplementing it with the necessary guidance to exclude from partial hedging a portion which is not independent from the other cash flows. We believe such an approach would far better ensure that present practice, for financial instruments as for non-financial instruments, is not unduly altered by the amendments.

#### **Question 4 : Transition**

Because of hindsight, retrospective application of changes in hedge accounting should not be required. Indeed whole hedging strategies should not be disqualified altogether, because of the issuance of the amendments. Hedge accounting being an option, there is no real benefit in comparability to be derived from retrospective application.

If retrospective application was nonetheless decided, we believe it should be specified in such a way that only the portion of the hedging strategy that no longer qualifies (for example the time value of an hypothetical written option) should be modified, the other component (the intrinsic value in the above example) remaining eligible to hedge accounting.

