

Sir David Tweedie  
IASB  
First floor  
30 Cannon Street  
GB – LONDON EC4M 6XH

Paris, September 24, 2003

***Re: Exposure Draft on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk***

Dear Sir,

The IAS Board published on 21<sup>st</sup> August its latest Exposure Draft of proposed amendments to IAS 39.

We understand that the purpose of this amendment is to enable companies, and in particular banks, to obtain hedge accounting for some macro hedge-type strategies involving interest rate risk. We agree with this amendment and with the principle of allowing hedge accounting for macro-hedging of interest rate risk. Even though you do not go as far as agreeing on the hedging of net positions, which is how industrial and commercial companies manage their positions, we welcome this evolution and would like to see it extended to foreign exchange risk which, for these companies, is at least as important as interest risk. On the second part of question 1, we are in favour of the method C as the measure of ineffectiveness. This method takes into account the partial hedge of a net position.

As EACT is not concerned by question 2 (demand and time deposits), we do not reply to this question.

We are however surprised and disappointed to note that the changes proposed have not dealt with two major issues of critical importance to corporates. The EACT has requested on several occasions that these issues be dealt with, raising the matter with the IASB through various letters, at the Round Tables and through informal meetings with members of the Board.

**EACT founding members:**

AFTE, Association Française des Trésoriers d'Entreprise - ASSET, Asociación Española de Financieros y Tesoreros de Empresa - ATEB, Association des Trésoriers d'Entreprise en Belgique - ATEL, Association des Trésoriers d'Entreprise à Luxembourg - DACT, Dutch Association of Corporate Treasurers - IACT, Irish Association of Corporate Treasurers - VDT, Verband Deutscher Treasurer  
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We are under the impression that the Board has not, in spite of their importance and merit, given our concerns proper consideration. These concerns are of critical importance if our members are to ensure that their treasury management activities can continue in a sound manner. In addition, we re-emphasise that both the changes we are requesting meet the objective of convergence with US GAAP.

We insist once again on the necessity for the Board of dealing with these two issues and amending the standard accordingly.

The EACT believes that without these two amendments, the standards IAS 32 and 39 are not acceptable.

The two issues are:

1. Treasury Centre Netting for foreign exchange hedging transactions (paragraph 134 of the current draft of IAS 39 and IGC item 134-1-b). EACT strongly suggested that this area be clarified in the standards itself and that a limited exception to paragraph 134 (126B in the E.D.) should be allowed for foreign currency hedging via a treasury centre, consistent with the principle in US GAAP (FAS 133) and with the objective behind IGC interpretation 134-1-b. Failure to make this change to the standards will lead to significant additional costs, both operational and financial, being incurred by many companies. It will leave companies reporting under IAS, notably in Europe, at a significant disadvantage compared to their US GAAP reporting competitors.
2. Availability under IAS of the short cut method for hedges involving interest rate swaps. We strongly support allowing the US GAAP approach in this area, since this would both significantly ease implementation burden for simple hedging strategies and would achieve convergence with the FAS 133 approach.

The complexity of applying the IAS rules as they currently stand imposes a burden which, for some companies will outweigh any financial reporting benefit, and may also cause some companies to decide to cease hedging interest rate and foreign exchange risk. In the interests of easing the implementation burden for companies using only basic hedging strategies and to ensure that appropriate risk management principles continue to be applied by all companies, EACT believes that treasury centre netting and the use of the short cut method should be allowed under IAS. Such a change would also achieve the objective of convergence with US GAAP and would avoid a complete misalignment of the accounting rules with common and sound practices of treasury management employed by companies listed on a Stock Exchange within the EU.



We thank you for your diligence and for the attention that you will grant our request. We hope that our comments will be of value in helping the Board improve the quality of standards in the area of hedge accounting.

We remain at your disposal to discuss our comments in further detail and to provide whatever supporting evidence you may need.

Yours sincerely,

H. Masquelier  
Chairman