ASSOCIATION FRANÇAISE
DES TRESORIERS D'ENTREPRISE

Le Président

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

Paris, November 7th, 2003

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

Dear Sir,

The IAS Board published on 21st 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 AFTE 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. AFTE has

requested that these issues be dealt with, raising the matter with the IASB through letters and at the Round Tables held in March 2003.
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.

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

AFTE 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). AFTE 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 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, AFTE believes that treasury centre netting and the use of the short cut method should be allowed under IAS. Such a change 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.
By not allowing to hedge net positions, especially for foreign currency risk management, IASB will lead companies to document their hedge decisions in a pure administrative way with no link to the economic reality and thus lead to unnecessary expenses and work. For instance, if a company has sales of 100 and expenses of 80 in the same currency and the same period, it may hedge the net position of 20 but must document a hedge of 20 of sales; this does not match with the reality.

Moreover, for companies whose tender periods are on a several years basis (engineering, aircraft, equipments, shipbuilding, defence...) and for which the foreign exchange rate used in the tender is a key element within the economy of the project, IAS 39 as it does not recognize the macro hedging of a tender portfolio will lead to large swings in results (marked to market of the derivatives used as hedge) which will cause interpretation problems with analysts, lending banks ... together with strong impact on the economy and the monitoring of the project (turnover being accounted on the spot price basis). AFTE would like IASB to propose:

- a macro hedge accounting for a tender portfolio as much as this portfolio is fully probabilized, allowing therefore cash flow hedge accounting.
- the possibility for companies acting within a group central treasury to use the tender rate in the accounting of their turnover, allowing central treasury to take into profit and loss the difference between the bid rate and the hedge rate on the basis of the technical percentage of the completion method.

Apart these three main points, AFTE wishes to add a last point for your consideration. In case of fair value hedge, companies may use an hypothetical derivative for test effectiveness. AFTE thus proposes that the hypothetical derivative be used for accounting the variation of the element hedged as the variations of the hypothetical derivative represent precisely the "changes in fair value attributable to the risk being hedged" of the hedged asset or liability IAS 39 § 147.

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,

Gérard Soularue
Chairman