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Sir David TWEEDIE
Chairman IASB

IASB
30 Cannon Street
LONDON EC4M 6XH
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JK/SJ/11.2003/32
RE : IAS 39

Dear Sir David,

We had welcome the organisation of the round-tables early March this year as being an excellent opportunity to reconsider some areas of the rule-based existing IAS 39 in the light of the few basic principles with which hedge accounting should comply.

These basic principles include, if we are not mistaken:

- a rigorous documentation of the hedging relationship between hedged items and hedging instruments;
- the accounting for all derivatives at fair value,
- the elimination of all internal contracts upon consolidation,
- the accounting for inefficiency in P/L in the period in which it arises.

Before the revised version of IAS 39 is issued, we wish to draw your attention to some issues that remain at stake, some of which being in full contradiction with both the above-listed basic principles and the IASB's due process.

1- Use of internal contracts in hedging foreign currency transactions.

We fully concur with the arguments drawn in discussions and letters that you have had with and received from representatives of ERT (European Round Table) and ACT (Association of Corporate Treasurers). We hence refer to them in this letter without repeating them.

The decision to limit the applicability of IGC 134 1- b) to separate financial accounts that the Board made in their September deliberations was made without any reference to the above-listed basic principles.

The examples that the Board received both from ERT and ACT show that foreign currency transactions may be hedged through internal contracts with the Corporate Treasury Department, tracked all through to the external hedging instrument that lays off the risk externally, and let all internal contracts be eliminated upon consolidation. In allowing IGC 134 1- b) to apply to consolidated financial statements also, there is no breach of any fundamental principle involved in hedge accounting. We therefore ask the Board to revert to the existing IGC 134 1-b) when issuing the IAS 39 version applicable from 2005 onwards.

Furthermore the change made by the Board in September is a severe breach in the IASB due process, since it has never been exposed by the Board. It constitutes a huge change in the present practice of companies applying IFRS already and in the planned practice of those getting prepared to comply with IFRS in 2005. Most companies that we know have already designed the information systems to be set up in order to comply with existing requirements regarding the hedging of foreign currency transactions. Since no change was planned by the Board and that the IGC made sense in taking into account the economic and organisational underlying reality of corporates, those entities were right in planning their future accounting processes in accordance with the existing literature.

2- Hedging of a portfolio of commercial bids

Our second comment relate to entities that deal with long-term contracts. These entities generally carry at any point in time portfolios of commercial bids made in foreign currencies. Because not all bids are going to develop into firm orders being placed by customers, each portfolio is evaluated on the basis of weighted average probabilities of occurrence. This is on that basis that hedging relationships are documented and managed all through the production process of the long-term contracts.

Historical practice of these entities show that they have reached a sound practice of estimating the probabilities of occurrence of the in- and out-flows of foreign currencies arising from their portfolios of commercial bids. Adequate documentation is essential to the process and is therefore complied with. Inefficiency can be determined and accounted for adequately. This practice is therefore compatible with the basic principles set up for hedge accounting.

We therefore request from the Board that a portfolio of commercial bids expressed in a foreign currency and from which, as a whole, future in- and out-flows of currencies can be reliably estimated and adequately documented be regarded as a highly probable future transaction.

Would you wish some further input on these issues, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Philippe CROUZET

Le Président

P/O *Jean KELLER*

MEDEF

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Le Directeur des Affaires Economiques, Financières et Fiscales

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ACT, ERT