From: gaby.lurie@baloise.ch [mailto:gaby.lurie@baloise.ch]
Sent: 29 June 2007 17:31
To: Ifric
Subject: Comment to tentative agenda decision

IAS 39 Financial Instruments: Recognition and Measurement—Hedging future cashflows with purchased options

Dear Madam/Sir

We welcome the opportunity to comment on the above tentative agenda decision.

The Bâloise Group operates in the insurance business which provides almost all types of life and non-life insurance in various european countries and is a Swiss Exchange (SWX) listed company. The Bâloise Group prepares financial statements in accordance with International Financial Reporting Standards.

The IFRIC was asked how effectiveness should be assessed when an option, in its entirety, is designated as a hedging instrument to hedge variability in future cash flows in a cash flow hedge.

The requests suggested that to assessing and measuring hedge effectiveness, an entity could compare all changes in the fair value of the purchased option with changes in the fair value of a hypothetical written option that has the same maturity date and notional amount as the hedged item.

The IFRIC decided not to take the issue on to its agenda, as the approach suggested in the requests is not allowed under IAS 39 in view of the following reasons:

1. approach suggested in the requests would effectively result in considering the time value component of an option (that does not exist in the hedged item) in determining changes in the fair value of the hedged item for assessing and measuring hedge effectiveness.
2. a (hypothetical or actual) written option (derivatives) cannot be designated as a hedged item (except purchased option in a fair value hedge).

Based on the following reasons, we do not believe that it is appropriate to reject the request:

To point 1: In general, a purchased option would be valued at Fair value through profit and loss, analogue to other derivatives. If, e.g., the option was bought for the hedging of the reinvestment risk, the valuation through profit and loss would result in a mismatch in the income statement. By applying hedge accounting, the purchased option (as a whole) would be the perfect hedge of the designated risk.

To point 2: Under IAS 39, the 'hypothetical derivative' method (or 'theoretical swap' method) is allowed for assessing hedge effectiveness (see IG F5.5).The purchased

option would be the hypothetical derivative and the hedge of the designated risk.

If you have any questions to our comment please do not hesitate to contact us.

Best regards,

Bâloise-Holding

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