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June 2007

Robert Garnett, Chairman  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London EC4M 6XH

Email: [ifric@iasb.org](mailto:ifric@iasb.org)

Dear Bob,

**IAS 39 *Financial Instruments: Recognition and Measurement* – Hedging future cash flows with purchased options**

Deloitte Touche Tohmatsu is pleased to respond to IFRIC's publication in the May 2007 *IFRIC Update* of the tentative decision not to take onto the IFRIC agenda a request for an interpretation on whether the fair value gains/losses of a purchased option can be fully deferred in equity in a cash flow hedge.

We support the IFRIC's decision not to take this item onto the agenda and also support the conclusion included in the draft rejection notice. As well as the guidance quoted in the rejection notice that we agree with, we also note that the premium, representing only time value (if the option is not in-the-money at inception) is the cost of entering into the option. We support the rejection as it recognises the cost of the option in profit or loss over the period which the option is held. Changes in the likelihood of the option ever being in-the-money in the future, ie changes in time value, are not an effective portion of the hedging instrument as the hedged item is not optional, as in order to designate the item in the first place the entity must assume the exposure *will* occur. We also believe the IFRIC's view is consistent with the guidance in IAS 39.74 that permits an entity to exclude changes in time value from the hedge designation and recognise those gains/losses immediately in profit or loss in order to achieve a highly effective hedge. If an entity could have chosen to designate the whole option including time value, and deferred all gains/losses in equity as a highly effective hedge, it begs the question of why IAS 39.74 was ever included in the standard. We believe IAS 39.74 is necessary to allow an entity to exclude time value from the designation to ensure that a purchased option can be highly effective in hedging future cash flows.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0) 207 007 0907.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Wild", written over a horizontal line.

**Ken Wild**  
**Global IFRS Leader**

cc: Tricia O'Malley, IFRIC Coordinator