



Dear Sir / Madam

### **Interpretation of the Fair Value Option, IAS 39.11A**

On behalf Norsk Hydro ASA we hereby write to inform you that we disagree with your proposed draft rejection regarding the scope of IAS 39.11A.

We believe that it should be clear from the last part of IAS 39.11 that the word contract as used in IAS 39.11, IAS 39.11A and IAS 39.12-13 includes both financial instruments within the scope of IAS 39 and non-financial instruments outside the scope of IAS 39. It thus follows from a plain English reading of IAS 39.11A that the option in IAS 39.11A applies to contracts where the host contract is a financial instrument as well as contracts where the host contract otherwise would be outside of the scope of IAS 39.

If it is not the case that IAS 39.11A is intended to have a similar scope as IAS 39.11 when interpreting the word contract, the wording in the existing standard should be changed.

The staff recommendation par 20 states: "The staff believes that the scope of a subset of IAS 39 should be consistent with the overall scope of IAS 39. And the scope of a subset of IAS 39 should not be broader than the overall scope of IAS 39. This is a general principle in applying all IFRSs." We believe that there is an inconsistency in the statement above. IAS 39.11 requires bifurcation of embedded derivatives, but also from contracts that are not in scope of IAS 39. This is clearly reflected in IAS 39.AG33, where both embedded currency derivatives and inflation derivatives are separated from instruments not inside the scope of IAS 39. There seem to be an understanding, which is not clarified in the standard (but under FAS133 DIG B14), that embedded price-related derivatives automatically are scoped into the standard through an automatic net settlement in the contract, without the host contract being scoped into the standard. Embedded price links on non-scope contracts are thus included under IAS 39.11, while such contracts are not considered in scope under IAS 39.11A. There is an inconsistency.

To interpret the word contract and scoping of contracts in IAS 39.11A based on a different understanding of the word contract does not seem reasonable based on the interpretation in IAS 39.11.

We were previously taking the option in IAS 39.11A into consideration when selecting the proper treatment for non-financial contracts containing embedded derivatives otherwise to be separated. The IFRIC agenda decision on May 3rd-4th 2007 made Hydro reconsider the use of IAS 39.11A due to added uncertainty in accepted accounting principles. These reconsiderations will potentially result in the financial statements not reflecting the underlying operations with similar precision as with our earlier application of IAS 39.11A. Hydro has previously been filing financial statements under USGAAP, and prepared its first IFRS financial statement for first quarter 2007.

Further, we would like to add that two of the big four auditing firms publicly have announced that IAS 39.11A applies to all contracts, provided that they have embedded derivatives as specified in IAS 39.11A(a) and (b). According to our opinion, it seems problematic to state that there has been no uncertainty regarding the application of IAS 39.11A.

If you have questions or want further clarifications please contact Alexander Samsonsen (*alexander.samsonsen@hydro.com*)

Yours sincerely  
for Norsk Hydro ASA

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