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26 February 2007

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

Email: ifric@iasb.org

Dear Bob,

IAS 39 *Financial Instruments: Assessing hedge effectiveness of an interest rate swap in a cash flow hedge*

Deloitte Touche Tohmatsu is pleased to respond to IFRIC's publication in the January 2007 *IFRIC Update* of the tentative decision not to take onto the IFRIC agenda a request for an interpretation on whether an entity can consider only the undiscounted changes in cash flows of the hedging instrument and the hedged item in assessing hedge effectiveness.

We support the IFRIC's decision not to take this item onto the agenda. We also support the IFRIC's tentative conclusion that an entity cannot exclude from the hedging instrument components other than the components prescribed in IAS 39.74 and also cannot ignore the timing of the hedge cash flows of the hedged item when assessing hedge effectiveness.

We note the following further evidence in support of the IFRIC's tentative conclusion:

- IAS 39.IG.F.5.5 states:

  Generally it will not be sufficient simply to compare cash flows of the hedged item with cash flows generated by the derivative hedging instrument as they are paid or received, since such an approach ignores the entity's expectations of whether the cash flows will offset in subsequent periods and whether there will be any resulting ineffectiveness.

  …

  It also should be noted that it would be inappropriate to compare only the variable cash flows on the interest rate swap with the interest cash flows in the debt that would be generated by the forward interest rates. That methodology has the effect of measuring ineffectiveness only on a portion of the derivative, and IAS 39 does not permit the bifurcation of a derivative for the purposes of assessing effectiveness in this situation (IAS 39.74).

We also note IAS 39.AG112 states *"a swap's fair value derives from its net settlements"* and therefore it would inappropriate to exclude from the hedge effectiveness assessment part of the fair value of the swap except when specifically permitted in IAS 39.74.

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

Sincerely,

Ken Wild
Global IFRS Leader

cc: Allan Cook, IFRIC Coordinator