

17 January 2003

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International Accounting Standards Board
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Dear Mr Orrell,

Improvements to IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 32, *Financial Instruments: Disclosure and Presentation* and Proposals for First-time Application of IFRSs

We note that the IASB are holding a roundtable discussions on various proposals to amend IAS 32 and IAS 39. In connection with this, we are writing to inform you of the severe consequences to many listed companies in the European Community of the uncertainty caused by the timetable for the proposed amendments. As you know, these companies are required to introduce International Accounting Standards by members by 2005. The problems caused by the timetable are exacerbated for those of our members who are listed in the United States and are therefore required to have two years of comparative profit and loss account numbers for their US filings.

Some companies are already into the period for which the IASB's proposed new standards would require restatements. This is a particular issue for those elements of the standards requiring policy decisions, new processes and the collection of additional data in order to arrive at restated numbers. Of these, the area causing most concern relates to financial instruments and hedge accounting. While a considerable amount of work has been undertaken by our members, there is, of course, a reluctance to commit resources to implementing systems and so forth while further changes in respect of hedge accounting remain a possibility.

In our opinion, these difficulties could be greatly reduced by an amendment to the Proposals for First-time Application of IFRSs. We think that it would be appropriate to allow a relaxation in respect of IAS 39 from the proposed requirement that hedge accounting can be claimed, in the comparative figures, only from the date that hedge documentation and effectiveness tests are in place. We would propose that hedge accounting should be applied in the comparative period(s)



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to transactions that qualify as hedges under the accounting regime prior to the implementation of IAS.

If the Board does not consider that this approach is possible, then we would consider that it is essential that companies should be able to apply hedge accounting to those transactions that:

- (a) qualify as hedges under the existing accounting regime, and
- (b) can be demonstrated, with hindsight, to have met the effectiveness requirements in IAS 39.

In other words, hedge accounting should not be precluded in the comparative period simply because the documentation and effectiveness testing requirements were not met at the inception of the hedge.

Yours sincerely

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CBI Company Affairs
Secretary, CBI Financial Reporting Panel