

DEPARTMENT OF
FINANCE AND
ADMINISTRATION

Reference: 02/9681
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The Chairman
International Accounting Standards Board
30 Cannon St
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UNITED KINGDOM

The Chairman
Australian Accounting Standards Board
P0 Box 204
Collins St West VIC 8007
AUSTRALIA

Dear Sirs

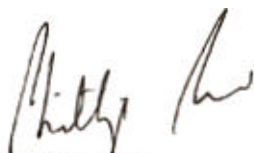
Exposure Draft of Proposed Amendments to IAS32 and IAS39

I refer to the International Accounting Standards Board's request for comment on the Exposure Draft of Proposed Amendments to IAS 32 Financial Instruments: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement, issued in June 2002.

Please find attached to this letter the specific comments of the Department of Finance and Administration, Commonwealth of Australia. We have focused our comments on those issues of greatest relevance to financial reporting by the Australian Federal Government.

To summarise our comments, we strongly support allowing entities to irrevocably measure any financial instrument at fair value. This position is consistent with our view that efforts should continue to develop fair value as the principal measurement model for financial instruments. We oppose, however, the proposed changes to hedge accounting that would prevent gains and losses on hedges being reflected in the carrying amounts of assets and liabilities.

Yours sincerely



Phillip Prior
First Assistant Secretary, Budget Group
November 2002

Invitation to Comment IAS39 39 Financial Instruments: Recognition and Measurement

Question 4 Measurement: fair value designation (paragraph 10)

Do you agree that an entity should be permitted to designate any financial instrument irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit or loss?

Comment

The proposal to allow any financial instrument to be designated irrevocably at initial recognition as an instrument to be measured at fair value is strongly supported. This would allow financial assets and liabilities that are managed together to be accounted for on a consistent basis. This change would also promote the use of fair value in the measurement of financial instruments. We believe that work to make fair value the predominant measurement technique for financial instruments should continue, even if it is not possible to achieve this goal through the current exposure drafts.

Question 9 'Basis adjustments' (paragraph 160)

Do you agree that when a hedged forecast transaction results in an asset or liability, the cumulative gain or loss that had previously been recognized directly in equity should remain in equity and be released from equity consistently with the reporting of gains or losses on the hedged asset or liability?

Comment

The proposal is not supported. The current treatment in IAS39 is more appropriate. Gains or losses on hedges of forward commitments deferred in equity should be reflected in the initial carrying amounts of assets and liabilities.