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Jardine Fleming Capital Partners Ltd.

20 September 2002

The International Accounting Standards Board
30 Cannon St
London EC 4 M 6 XH
United Kingdom
commentletters@iasb.org.uk

Dear Sirs,

Accounting for Specific Hedges under IAS 39

I am responding while on holiday to your Exposure Draft on Financial Instruments after having had extensive experience as a user of financial statements drawn up under applicable existing Australian Accounting Standards. We are equity investors with an investment process that relies heavily on analysis of financial reports.

My understanding is that the proposed IAS applicable to specific hedges would result in a situation not dissimilar to the present one in Australia; that is, the impact of specific hedges on the profit for an historic year already reported is not required to be disclosed, nor is there information required to be disclosed to enable its calculation.

This deficiency is most dramatically highlighted in the case of the major Australian wine companies who now make over half of their sales in foreign currency. They take forward cover up to five years forward via options and futures contracts which they purport pertain to specific sales of future years in foreign currency. The objective is to lock in the Australian dollar return from these sales in future years. Deemed “specific” hedges, any differences between the forward rate and the rate prevailing is deferred until the earmarked transaction takes place.

The impact of the exchange difference between forward and spot on the Statement of Financial Performance is potentially enormous and in effect represents the extent to which reported profit differs from underlying or maintainable profit.

As you are aware the latter concept of maintainable or sustainable profit is at the heart of financial analysis. Indeed, many accounting standards’ disclosure requirements are designed to enable notional adjustment to get back to maintainable profit. For this reason, we believe it is essential that the eventual accounting standard requires this to be disclosed.

Secondly, we believe that the standard should unambiguously require presentation of information that enables calculation of the timing of the impact of deferred exchange differences. Present standards generally require disclosure of the amount of the unrealised loss or gain on hedge books/forward contracts, but not how it is comprised. However there is a significant difference in value if the loss or gain likely to be realised in year one of a five-year hedge program vs. year five. Once again, the practical experience of Australian wine companies highlights the sheer size and variability of unrealised hedge gains and losses.

As very frustrated users, we hope that the IASB will take these practical issues into account and built them into the new Standard.

I would be more than happy to assist in illustrating the issue by reference to concrete examples when I return from leave on 14 October. My email address is pierre.prentice@jfcp.com.au.

Yours truly,

PIERRE PRENTICE

cc Australian Accounting Standards Board.