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Dear Madam

Proposed amendments to IAS 39, Cash Flow Hedge Accounting of Forecast Intragroup Transactions

We welcome the opportunity to provide comments on the Exposure Draft on behalf of the Danish Institute of State Authorised Public Accountants (FSR).

The Danish Accounting Standards Committee has reviewed the ED and we summarize our comments below.

Our comments have been presented for the Accounting Advisory Panel which consists of users and preparers of financial statements in Denmark.

General comments
We appreciate IASB's effort to establish a method under which companies in fact can establish cash flow hedge accounting of intragroup transactions similar to the previous IG 137-14.

However, we do not agree with the way this method is established because the proposed solution is inconsistent with the concepts of functional currency and presentation currency established in IAS 21. We are therefore in line with those commentators referred to in BC 12 of the ED and the dissenting opinion expressed in AV.

The implication of the ED is in fact that the presentation currency of the group will act as the functional currency of the group since hedging of transactions in the presentation currency of the group is not permitted.

This is contradictive to the concept of IAS 21 for the following reason:

- The presentation currency is chosen by the group and should have no impact on recognition and measurement in itself
- There is no concept of a group functional currency under IAS 21

To illustrate the above:

A Danish group elects EUR as its presentation currency. A Singapore subsidiary of the Danish Parent Company, which has SGD as its functional currency, enters into sales transaction denominated in EUR. The subsidiary has no transactions with the Danish parent company and therefore, Management of the subsidiary elects to cash flow hedge these transactions. Because there is no exposure with respect of the *presentation currency of the group* the hedge transaction must be eliminated in the consolidated financial statements. In our view such a treatment does not reflect the economic substance of the transactions because the entity entering into the transaction has in fact an exposure and this exposure should be reflected in the Group's financial statements because from the parent companies' view there is merely a translation risk. This is emphasized by the fact that had the group – by incidence – chosen to present its financial statements in DKK, the hedge transaction should not have been eliminated.

In our view, the best method to establish cash flow hedge accounting of intragroup transactions is by changing paragraph 80 of IAS 39 so that cash flow hedging of forecasted intragroup transactions between entities will be having different functional currencies. We notice that the possibility to establish hedge accounting of forecasted intragroup transactions would converge IAS 39 to US GAAP. Further the proposed changes would be more in line with what is indicated by the title of the ED.

Such a change could be made without violating the principles of IAS 21.

If, however, it has been IASB's intention that the presentation currency of the group should actually act as the functional currency of the group, IAS 21 should be changed to reflect that fact. Should the IASB choose this way, we find that the presentation currency should no longer be a matter of choice. Rather, it should be the functional currency of the reporting entity.

Specific comments
Appendix 1 sets out the answers to the question raised.

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If you would like further clarification of the points raised in this letter, we would be happy to discuss these with you.

Yours sincerely

Eskild Nørregaard Jakobsen
Chairman of FSR's Accounting
Standards Committee

Ole Steen Jørgensen
Head of Department

Appendix 1

Question 1

Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?

We do not agree with the proposal because it contradicts the provisions of IAS 21. We prefer a method allowing cash flow hedges of forecasted transactions between Group entities with different functional currencies established by introducing permission in IAS 39 itself. This could be done without violating the principles of IAS 21.

Question 2

Do the proposals contained in Exposure Draft appropriately address the concerns set out in paragraph 3 of the Background on this Exposure Draft? If not, why not, and how would you address these concerns?

We acknowledge that the proposal to some extent addresses the concerns set out in the background information on the exposure draft. However, establishing hedge accounting by linking internal transactions to external transactions would still require extensive effort from the company. Our proposal set out in the answer to question 1 would simplify the application and in addition do this without violating the principles of IAS 21.

Question 3

Do you have any other comments on the proposals?

No.