NESTLÉ S.A.

HERMANN WIRZ
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INTERNATIONAL ACCOUNTING STANDARDS BOARD
Comment letters
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Attn. Ms Sandra Thompson,
Senior project Manager

Vevey, 8 October 2004

Ladies and Gentlemen,

ED ON CASH FLOW HEDGE ACCOUNTING OF FORECAST INTRAGROUP TRANSACTIONS

After having first repealed the interpretation guidance IGC 137-14 in the revised IAS 39, we welcome the fact that the Board has now addressed this issue in the due process, thus answering the concerns of the preparers. We express below our general views on hedge accounting of cash flow hedges of forecast intragroup (IG) transactions and then we answer the specific questions of the exposure draft.

General Comments

In issuing its exposure draft on Cash Flow Hedge Accounting of Forecast Intragroup Transactions (hereinafter called the ED) the Board has asserted in the basis for conclusion of the ED (BC 7) that a forecast transaction does not result in amounts that are not fully eliminated on consolidation under IAS 21. While the assertion is correct from a conceptual point of view, the Board should not lose sight that such transactions will result, at a later date, in exchange gains or losses that will not be eliminated on consolidation (i.e., on future payables or receivables) and, for that reason, enterprises' treasury departments commonly hedge such transactions.

Asking enterprises to designate as hedged items forecast transactions with third parties (i.e. purchases of the exporter or sales of the importer) is certainly a conceptually "pure" solution but this will force the entities to establishing cumbersome procedures for tracking their IG hedges. This will result in additional bureaucracy whereas the reinstatement of the IGC 137-14 would permit them to continue having a hedging designation that corresponds to their risk management policies.

We therefore favour either the reinstatement of IGC 137-14 or its retention as an option, considering that it is in line with US GAAP. Nevertheless we believe that the ED is better than the current situation where there is no guidance on hedge accounting on forecast IG transactions. In this context, we would recommend that the ED be substantially improved and illustrated with practical examples to make its application easier.

Answers to specific questions

Question 1

As stated in the introduction, we favour the reinstatement of IGC 137-14 or its retention as an option. However, if the Board would decide not to reconsider any reinstatement of IGC 137-14, then we would support the ED subject to the improvements described in our answer to question 2.

Question 2

We consider that the ED addresses the concerns set out in paragraph 3 from a very theoretical standpoint and that it would need the enhancements described below to be practicable.

- The example of BC 2 should be moved from the basis from conclusions to the application guidance. This example is also overly simplified as it includes only two currencies. One possible example could be a three currency situation, i.e., a Group whose consolidation currency is, e.g., the Swiss Franc and which has a subsidiary whose functional currency is the Euro exporting to another subsidiary whose functional currency is the US Dollar. This is the type of situation that many multi-national groups encounter.

- One of the greatest difficulty of the ED is that it will force enterprises to have a designation at two levels, i.e., one at that of the subsidiaries and another one at that of the group to achieve the requirements of having the derivatives related to transactions with third parties. The Board should work practical examples of those designations and try to minimise unnecessary bureaucracy as stated in our general comments.

- The Board should also work out transition provisions and explain how companies should move from IGC 137-14 to the requirements of the ED. This is very important since companies are already starting to enter into hedging 2005 future transactions.

Question 3

We do not have other comments on the proposals apart from those expressed in our general comments above.

We thank you for allowing us to comment on this exposure draft and for your attention to the above.

Best regards,

NESTLE S.A.

H. Wirz
Senior Vice President
Head of Group Accounting and Reporting