International Accounting Standards Board
Attn. Sandra Thompson
Senior Manager
30 Cannon Street
London EC4M 6XH
United Kingdom

Our ref RJ - comment letter on proposed amendments to IAS 39 Financial Instruments

Amsterdam, 5 October 2004

Dear Ms Thompson:

Comments on Exposure draft of proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions

We appreciate the opportunity to respond to your invitation to comment on the "Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (hereafter referred to as ED). Our response consists of general comments and answers to the questions raised in the ED.

Question 1

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

We agree with the purpose of the ED, to give practice opportunity for the application of hedge accounting to intragroup transactions, however we do not agree with the proposed amendments to IAS 39 to achieve that goal for the following reasons:.

- The proposed route is in our view complicated and not consistent with IAS 21. According to IAS 21, each entity, being a subsidiary but not a group, has a functional currency. The proposals acknowledge this by referring to the group's presentation currency, rather than functional currency. However a group's presentation currency cannot give rise to a foreign exchange exposure.

- We are not convinced by the IASB's arguments to not adopt the approach of implementation guidance IGC 137-13. In our view that approach is more pragmatic and better reflects the economic reality of the hedge transactions.
- There are situations where the proposed approach does not allow hedge accounting and therefore does not achieve its goal, while the implementation guidance IGC 137-13 would work. We refer to our comment to question 3.
- We do not see sufficient basis to deviate from US GAAP (FAS 133) in respect of hedging of intragroup transactions.

We therefore recommend that instead of the proposed solution, the solution as included in the deleted implementation guidance IGC 137-13 should be chosen. Both solutions form exceptions to general principles: the proposed solution is an exception to the rule that a group has no functional currency; the IGC 137-13 solution is an exception to the rule that a forecast intragroup transaction cannot be designated for hedge accounting. However the latter solution more directly addresses the issue at hand and is therefore in our view easier to understand and apply.

Question 2

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

We refer to our response to question 1.

Question 3

Do you have any other comments?

Given that the ED requires that an external exposure is designated, there may be situations where the intragroup transaction results in a particular exposure, but the external position is different. This raises the question whether hedge accounting can be applied in those situations.

It is for example unclear from the ED whether hedge accounting can be applied in the following situation. A subsidiary sells to customers in a currency other than its functional currency (USD), and also different from the group's presentation currency (EURO). The subsidiary hedges this currency risk against the USD. The result for the group is a 'synthetic' exposure in the functional currency (USD) of the subsidiary. For the group this would still constitute an exposure if for the purpose of this sale an intragroup transaction was entered into between parent (or another subsidiary) and the subsidiary in EURO, on the basis of the currency of the external costs incurred by that intragroup counterparty to the USD functional currency subsidiary. The economic exposure including the hedge transaction entered into by the subsidiary would be similar to the exposure described in paragraph BC2 of the ED. However in order to hedge the exposure, group would need to apply hedge accounting to a synthetic exposure that includes a derivative in the subsidiary, which is not allowed under the hedge accounting rules of IAS 39.

These types of issues would not occur if IGC 137-13 was re-issued as implementation guidance and the standard was accordingly amended where necessary.

If you have any queries regarding our comments and responses, please do not hesitate to contact us.

Yours sincerely,

Prof. dr. Martin Hogendoorn
Chair Council for Annual Reporting