The South African Institute of Chartered Accountants

8 October 2004

Sandra Thompson
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International Accounting Standards Board
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Email: CommentLetters@iasb.org.uk

Dear Madam,

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT *CASH FLOW HEDGE ACCOUNTING OF FORECAST INTRAGROUP TRANSACTIONS*

In response to your request for comments on the International Accounting Standards Board's proposed amendments to IAS 39, *Financial Instruments: Recognition and Measurement (IAS 39), Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, attached please find the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). Please note that SAICA in addition to being a professional organisation, also acts as the secretariat for the Accounting Practices Board (APB), the official accounting standard-setting body in South Africa.

While we are not convinced of the technical merits of the proposed clarification, we recognise the need for a pragmatic accounting solution for this type of transaction. We therefore support one of the two proposed approaches, as explained in the attached letter.

Moreover, we would like to suggest that a solution applied in US GAAP also be considered to determine whether, in the interest of convergence, it could be incorporated into IAS 39 (as the alternative to the proposed approaches).

We would like to thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact me should you wish to discuss any of our comments.
Yours sincerely

Thingle Pather
Project Director – Standards

cc: Doug Brooking (Chairman of the Accounting Practices Board)
Geoff Everingham (Chairman of the Accounting Practices Committee)

SAICA COMMENT LETTER ON AMENDMENTS TO IAS 39

Question 1

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

Although we are not convinced of the technical merits of the two approaches considered in the exposure draft, we acknowledge the need for a pragmatic accounting solution applicable to hedges of forecasted transaction in group situations.

We believe that the rejected approach outlined in BC6 - BC8 diverges from a principle-based approach to allow for hedging of a transaction where hedging was not originally intended. By allowing the forecast intragroup transaction to be designated as a cash flow hedge, this approach creates inconsistencies in terms of compliance with hedge accounting rules.

With regard to the approach set out in BC9 to BC15, we agree, at a conceptual level, with the views in AV2. However, we note that similar criticism could be levelled at the approach in IAS 39.80 for intragroup monetary items.

Notwithstanding our reservations as to the technical argument, we support the approach outlined in BC9 - BC15 as the pragmatic accounting solution.

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 disagree with postponing the effective date of the proposed amendment to 1 January 2006. We are of the opinion that the effective date of 1 January 2005, which coincides with the effective date of the revised standard, to be more appropriate since the proposed amendment provides clarification rather than introducing any new principles.

Question 3

Do you have any other comments on the proposals?

We suggest that the title of the exposure draft should be re-considered. The proposed amendment does not deal with cash flow hedge accounting of forecast intragroup transactions, as intended by the title, but rather focuses on a forecast external transaction by a subsidiary.

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