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Friday 8th October, 2004

Amendments to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions

Dear Sandra,

ISDA appreciates this opportunity to comment on the Exposure Draft ("ED") of *'Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Cash Flow Hedge Accounting of Forecast Intragroup Transactions'* which was published by the International Accounting Standards Board ("IASB" or "the Board") in July 2004.

Our members represent leading participants in the privately negotiated derivatives industry and include most of the world's major financial institutions, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. As such we believe ISDA brings a unique and broad perspective to the IASB's work on accounting for financial instruments.

The appendix to this letter sets out our answers to the questions posed by the Board.

We would be pleased to discuss our comments with the Board or staff. Please contact Melissa Allen at CSFB on (020) 7883 3598 or Ed Duncan at ISDA on (020) 7330 3574.

Yours sincerely

Melissa Allen

Melissa Allen
Chair of the ISDA European Accounting Committee

Ed Duncan
Assistant Director of European Policy at ISDA

Appendix

We outline below our responses to the questions raised by the IASB in the invitation to comment.

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

ISDA supports the proposals outlined in the ED that would allow an entity to designate a highly probable forecast transaction that would result in a foreign currency exposure in the accounts of the consolidated group. We believe this to be a pragmatic solution to an important accounting concern. Hedging of consolidated foreign exchange risk is a significant issue for international companies and without an amendment to IAS 39 (revised 2003) the accounting results would be inconsistent with the underlying economics and risk management practices.

2) Do the proposals contained in the 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?

ISDA believes the proposals contained in the ED would address the main concerns raised by constituents identified in paragraph 3(a) and 3(b) in the background section, as it allows them to hedge forecast transactions that would result in a foreign currency exposure in the accounts of the consolidated group.

It is worth noting that because the IASB's approach to this issue is different to the one under US GAAP, the results will not always be the same. As such, the concerns raised in paragraph 3(c) may not have been met in full. If the IASB should choose not to make the amendments proposed in the ED, as an alternative, we feel they should consider re-instating IGC 137-14, which aligns more closely with US GAAP.

3) Do you have any other comments on the proposals

The repeal of IGC 137-14 from IAS 39 (revised December 2003) will require entities adopting the new Standard to reverse the hedge accounting for forecast intra-group transactions previously applied, whilst the proposals in the ED would only allow the entity to hedge external forecast future transactions prospectively from the date the hedge is designated.

In the absence of specific transitional provisions, entities already applying IAS 39 will be required to unwind the previous hedge accounting under IGC 137-14 and recognise any deferred gains and losses on the hedging instrument through profit or loss.

Therefore, ISDA recommends the proposals in the ED be amended to allow entities already applying IFRS to retrospectively designate the hedge of the highly probable forecast external transaction.