



ASSOCIATION FRANCAISE
DES TRESORIERES D'ENTREPRISE

CL 10

Sir David Tweedie
Chairman of the Board
International Accounting Standards Board
30, Cannon Street
London, EC4M 6XH
United Kingdom

Paris, October 6th, 2004

Dear Sir,

AFTE, the French Association of Corporate Treasurers which includes roughly 1000 treasurers representing 900 companies or groups operating in France, wishes to comment the Exposure Draft of proposed amendments to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions".

We understand that the sole objective of the Exposure Draft is to clarify the interpretation of IAS 39 that an entity could designate a highly probable forecast *external* transaction denominated in a currency other than the group's presentation currency as the hedged item.

With regard to the hedge of forecast intragroup transactions, an entity would be permitted to use *the* forecast intragroup transaction as part of the *tracking mechanism* for associating *the* hedging instrument with *an* external transaction, if (and only if) this transaction is designated as the hedged item.

We welcome this clarification but think it will only bring limited benefits for corporates. This is so because IASB does not take into account how groups manage their consolidated foreign exchange risks and the reality of the business cycle. Groups generally manage these risks on a portfolio basis rather than on an item by item basis. Moreover, there is usually a time lag between the internal transaction and the external transaction especially in the case of products internally exchanged are modified/finished in the affiliate which sells them. Finally, the Exposure Draft does not eliminate differences from US GAAP (SFAS 133) as hedge accounting for a group of forecasted foreign currency transactions is allowed by US accounting norms. And we do not understand why the portfolio approach you finally agreed for interest rate management is not extended to the foreign exchange risk area and why the fair value hedge accounting is not included in this Exposure Draft.

20 rue d'Athènes – 75442 PARIS CEDEX 09

Tél. 01 42 81 53 98 – Télécopie : 01 42 80 18 90

Site internet : afte.com – E-mail : afte@afte.com

Association régie par la loi du 1^{er} juillet 1901 – Journal officiel du 17 novembre 1976

N° SIRET : 314 974 338 000 50 - Code APE 913 E

The use of internal contracts arises from the transfer of the foreign exchange rate exposures of operational entities to the Treasury Department of the group. Because IAS 39 precludes designating internal contracts as hedging instruments, risk management practices are not eligible to hedging accounting. **We consider that this fundamental question should be re-examined by the IAS Board members with the new Working Group on Financial Instruments.**

We note that this Exposure-Draft doesn't give enough guidance on the ways of measuring ineffectiveness (in particular which of the external or the internal transaction has to be part of the measure, consequences of the reclassification from equity to profit or loss of amounts initially recognised in equity).

For these reasons, we ask you to include the following proposals in the new IAS 39 version:

- . recognise explicitly the practice of hedging the foreign currency risk relating to a portion of the amount of forecast transactions during a time period,
- . recognise the principle of macro-hedging of foreign currency risk: as permitted for a portfolio hedge of interest rate risk, the hedged item should be capable of being designated in terms of an amount in a maturity time period, rather than as individual transactions or a group of individual transactions. Hedging conditions for forecast transactions should be assessed globally,
- . similarly to the US GAAP, allow hedge accounting for a group of forecast intragroup transactions,
- . fair value foreign exchange hedge accounting should follow the same principles.

We would be pleased to discuss these proposals further and thank you for your consideration of our views.

Yours sincerely,

Richard CORDERO
Managing Director