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N° 611

PARIS, 8TH OCTOBER 2004

CL 39

Ms Sandra THOMPSON

Senior Project Manager

IASB

30 Cannon Street

London EC4M 6XH

Re : Proposed Amendments to IAS 39 *Financial Instruments Recognition and Measurement* : Cash Flow Hedge Accounting of Forecast Intragroup Transactions.

Dear Sandra,

The Conseil National de la Comptabilité (CNC) appreciates the opportunity to comment on the Proposed Amendments to IAS 39 *Financial Instruments, Recognition and Measurement* : Cash Flow Hedge Accounting of Forecast Intragroup Transactions.

As already mentioned several times [1], the CNC has strong reservations on the hedge accounting requirements in IAS 39 in respect of transactions entered into by different entities within the same group for its consolidated financial statements.

This is why we cannot support the proposed Amendment which is based on these basic principles of IAS 39.

Because IAS 39 precludes designating internal transactions as hedged items, risk management practices are not eligible to hedge accounting. We consider that this fundamental question should be re-examined by the IAS Board members with the new Working Group on Financial Instruments.

[1] Letter to Sir David Tweedie dated 10 December 2003, response to the Exposure Draft of Proposed Amendments to IAS 39 regarding Fair Value Hedge Accounting of Interest Rate Risk dated 14 November 2003, response to the Exposure Draft of Proposed Amendments to IAS 39 dated 15 October 2002.

We consider that the Proposed Amendments should permit the designation of intragroup transactions to be designated as the hedged item for hedge accounting purposes, because a foreign currency risk may arise from the forecast intragroup transactions which will never result in a realised external transaction. Furthermore, the paragraph AG 99 A which mentions that "a group can designate as the hedged item in a foreign currency cash flow hedge a highly probable forecast external transaction" does not enable to take into consideration practices of hedging groups of future transactions, and not only individual transaction.

The SFAS 133 principles for accounting for foreign currency risk on forecast intragroup transactions are more pragmatic, and we regret that IAS 39 still maintains difference from US GAAP on this subject.

Therefore, we suggest to reinstate guidance previously contained in Guidance on Implementation (IGC) 137-14 which permits the designation of highly probable forecast intragroup transactions to be designated as the hedged item in a foreign currency cash flow hedge.

If you want further information on these points, don't hesitate to contact me.

Yours sincerely,

Antoine BRACCHI

APPENDIX

Question 1

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

We don't agree with the proposals in this Exposure Draft for the main reasons described in the cover letter.

The foreign currency risk in a consolidated group arises from the highly probable forecast intragroup transactions rather than the external transactions when realised. This foreign currency risk is later reconfirmed upon recognition of intragroup monetary items (receivables, payables, cash) resulting from the goods delivered or the services rendered. Therefore, we consider that highly probable forecast intra-group transactions may be designated as the hedged items.

Furthermore, in a consolidated group, it is a common practice to hedge foreign currency risk relating to a portion of an amount of highly probable forecast transactions, such a percentage of forecast sales during a time period. Therefore, the hedged items should be capable of being designated in terms of an amount rather than as individual transactions or a group of individual transactions, and hedging conditions should be assessed for these amounts of highly probable intragroup transactions.

Regarding the hedging instrument, it is mentioned in the paragraph 4 of the Background that *'Entities can use the tracking mecanism (or audit trail) for associating the hedging instrument with an external transaction'*. The use of internal contracts arises from the transfer of the foreign exchange rate exposures of operational entities to the Treasurery Department of the group. To preclude designating internal contracts as hedging instruments is not consistent with risk management practices which hedge foreign currency risk on a portfolio basis at the Group level.

Question 2

Do the proposals contained in this 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 ?

As mentioned in the cover letter, we suggest to reinstate guidance previously contained in Guidance on Implementation (IGC) 137-14 which permits the designation of highly probable forecast intragroup transactions to be designated as the hedged item in a foreign currency cash flow hedge, and which does not require to establish a relationship with forecast external transactions.

Question 3

Do you have any other comments on the proposals?

In consolidated financial statements, a foreign exchange exposure can only arise when there is a difference between the currency of the transaction and the functional currency of the entity entering into the transaction. Consequently, this exposure only exists if forecast transactions are denominated in a currency other than the functional currency of the entity entering into the transaction. Consequently, we don't support the reference to the group's presentation currency which does not affect the currency exposure (last sentence in paragraph AG 99 A, paragraph BC 15 and paragraph 5 of the Background).

Finally, we note that the proposed solution in this Exposure Draft raises questions on the ways of measuring ineffectiveness which have not been resolved (in particular, which of the external or the internal transaction has to be part of the measure and the consequences of the reclassification from equity to profit or loss of amounts initially recognised in equity).