EURO-ASSOCIATIONS
OF CORPORATE TREASURERS

CL 106

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

Paris, 27th September 2004

Dear Sir,

Re: Exposure Draft of proposed amendments to IAS 39 regarding cash

EACT, the Euro Association of Corporate Treasurers, wishes to comment the Exposure Draft of proposed amendments to "IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions".

We understand that the major objective of the Exposure Draft published on July 8th 2004 was 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. As you know, it was a crucial issue for all multinational companies confronted to this type of transactions.

With regard to the hedge of forecast intragroup transactions, an entity would be permitted to use the highly probable forecast external transaction to be the hedged item. Consequently, the exposure draft proposes that, in the consolidated financial statements, a highly probable forecast external transaction, denominated in the functional currency of the entity entering into the transaction (e.g. the subsidiary), may be designated as the hedged item in a foreign currency cash flow hedge, provided that the transaction gives rise to an exposure that will have an effect on consolidated profit and loss. Therefore, a transaction may be a hedged item provided that it is denominated in a currency other than the group's presentation currency.

Although the original version of IAS 39 had a slightly different approach, EACT welcomes the proposed solution, which is an improvement of the former IAS 39 version. Of course, the former solution (IGC 137-14) permitted a highly probable *intragroup* transaction to be the hedged item provided that the transaction will result in the recognition of an *intragroup* monetary item for which exchange differences are not fully eliminated on consolidation, but the IASB proposed solution achieves a rather similar result, but with greater complexity. That is the reason why some of our members remain unsatisfied by the Exposure Draft.

EACT thanks the Board for the proposed solution. Nevertheless, EACT would have rather suggested adopting a solution similar to former IGC 137-14. The current proposal was not the sole possible solution to that specific issue but it could be used in other practical cases.

In general, EACT does recommend applying solutions that remain practicable and consistent with cautious corporate risk management policies and best treasury practices.

We hope that the Board of IAS will consider our views and we expect that the Working Group, which EACT has been invited to, will be an occasion to re-address specific issues on IAS 39 that corporate treasurers already mentioned in previous letters or to Round Tables.

Yours sincerely,

François Masquelier
Honorary Chairman