Foreningen af Statsautoriserede Revisorer
Kronprinsessegade 8, 1306 København K. Telefon 33 93 91 91
Telefax nr. 33 11 09 13 e-mail: fsr@fsr.dk Internet: www.fsr.dk

IAS 39 Amendments
International Accounting Standards Board
30 Cannon Street
London ECYM 6XH
England

E-mail: CommentLetters@iasb.org

8 January 2008
enj/osj/dor (X:\Udvalg\REGU\ED-IASB\Comments IAS 39.doc)

Dear Sirs

Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Exposures Qualifying for Hedge Accounting

The Danish Accounting Standards Committee is pleased to comment on the International Accounting Standards Board's exposure draft Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Exposures Qualifying for Hedge Accounting.

The Committee discussed the ED at its December meeting.

We support in general the proposals in the Exposure Draft.

The proposals are rules-based. The Committee generally prefers standards to take a principle-based approach. However, IAS 39's requirements on hedge accounting are optional and an exception to the basic requirements on accounting for financial instruments. We consider it important even in a principle-based system that options are clearly described.

Overall, we believe that the proposed amendments to IAS 39 will improve the clarity and understanding of IAS 39's requirements on hedge accounting. The Danish Accounting Standards Committee supports them on that basis.

However, we see a risk that the proposed changes which solely relate to hedges of financial items may have implications on current practice for hedges of non-financial items. This is due to the fact that paragraph 80Z.c. of the exposure draft implies that hedge of a one-sided risk is a hedge of a portion. Strictly reading, this would lead to the conclusion that a hedge of a one-sided risk of a non-financial item is not an applicable hedging strategy because current IAS 39.82 only allows for the hedge of either FX risk or all risks. Such hedging strategies are common, for example purchase of a put option to hedge the risk of a decrease in the FX rate in a forecasted FX sale or purchase of a call option to hedge the risk of a price increase on a forecasted commodity purchase.

To the extent that such a change was not intended we recommend that the Board reconsiders the relationship between the proposed paragraph 80Z and current IAS 39.82. To the extent that this change was intended we disagree with the proposal.

In this respect we notice the fact that, as referred to in BC 14, the proposed change partially arose from an IFRIC submission regarding use of a hypothetical written option method for effectiveness testing of the hedge of a one-sided risk on a non-financial item. Our understanding was that the IFRIC discussion related solely to whether the hedge effectiveness in cases to be assessed using a hypothetical derivative method in which the hypothetical derivative is an option, including time value, and did not question whether a one sided hedge designation was possible under IAS 39.82.

In regards to imputing time value into the hedged item we agree that this would be inappropriate under existing IAS 39. However, we are concerned that AG 99E and paragraphs 80Z may be interpreted as only applying to financial items and not non-financial items. We therefore believe that the IASB should clarify that it would be inappropriate to impute the time value in the hedged item both in a hedge of a financial and non-financial item.

Our responses to the questions raised in the exposure draft are included in the attachment to this letter.

Yours sincerely

Eskild Nørregaard Jakobsen
Chairman of the Accounting
Standards Committee

Ole Steen Jørgensen
Head of Department, FSR
Secretary to the Accounting
Standards Committee

Question 1 – Specifying the qualifying risks

The proposed amendments restrict the risks qualifying for designation as hedged risks to those identified in paragraph 80Y.

Do you agree with the proposal to restrict the risks that qualify for designation as hedged risks? If not, why? Are there any other risks that should be included in the list and why?

The Danish Accounting Standards Committee in general agrees with the proposed approach of specifying the risks eligible for designation as hedged risks. The risks identified in paragraph 80Y appear to be appropriate.

We have one concern regarding the relationship between paragraph 80Z(d) and paragraph 80Y(e).

Paragraph 80Y(e) permits the designation of ”the risks associated with the contractually specified cash flows of a recognized financial instrument”. Likewise Paragraph 80Z(d) allows designation of ”any contractually specified cash flows of a financial instrument that are independent of the other cash flows of that instrument”. The two paragraphs seem to address slightly different points. However, the wording seems to confuse as there should be a difference.

The intention of paragraph 80Y(e) is to permit designation of changes in value or cash flows as a hedged risk due to changes in a variable that is specified in the terms of the instrument and changes the cash flows of an instrument. Paragraph 80Z(e) deals with the components of the total cash flows of an instrument in stead of the factors that might cause those cash flows to change. We recommend that the wording of paragraph is 80Y(e) is improved in order to clarify the intent and relationship to paragraph 80Z(d).

Question 2 – Specifying when an entity can designate a portion of the cash flows of a financial instrument as a hedged item

The proposed amendments specify when an entity can designate a portion of the cash flows of a financial instrument as a hedged item.

Do you agree with the proposal to specify when an entity can designate a portion of the cash flows of a financial instrument as a hedged item? If you do not agree, why?

Are there any other situations in which an entity should be permitted to designate a portion of the cash flows of a financial instrument as a hedged item? If so, which situations and why?

The Danish Accounting Standards Committee agrees with the proposal to specify when an entity can designate a portion of the cash flows of a financial instrument as a hedged item.

Hedge of an equity price in the context of IFRS 7 would meet the requirement to be a hedge of all of the risks of a financial instrument. However, we notice that equity price risk is not defined in IAS 39, and further, we notice that IG F 2.19. of current IAS 39 regards FX risk on an equity instrument as a hedgeable risk. The logical implication of this is that equity price risk is actually a portion. Subject to this potential need for clarification, and if equity price risk is actually a portion, addition of this risk as a hedgeable risk, the Danish Accounting Standards Committee have not found any additional situations in which portions of cash flows should be eligible for designation.

Question 3 – Effect of the proposed amendments on existing practice
The aim of the proposed amendments is to clarify the Board's original intentions regarding what can be designated as a hedged item and in that way to prevent divergence in practice from arising.

Would the proposed amendments result in a significant change to existing practice? If so, what would those changes be?

The Danish Accounting Standards Committee does not believe that the proposed amendments would result in a significant change to existing practice.

Question 4 – Transition
The proposed changes would be required to be applied retrospectively.

Is the requirement to apply the proposed changes retrospectively appropriate? If not, what do you propose and why?

The Danish Accounting Standards Committee finds the proposed requirements on transition to be appropriate.

---oo0oo---