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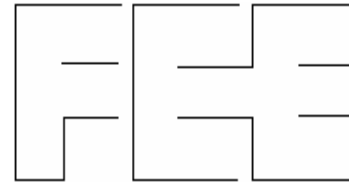
Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Av. d'Auderghem 22-28/8
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

27 February 2008

Sir David Tweedie
Chairman
International Accounting Standards Board
1st floor
30 Cannon Street
London EC4M 6XH
United Kingdom

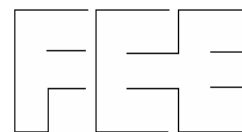


Email: commentletters@iasb.org.uk

Dear Sir David,

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

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the IASB Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: *Recognition and Measurement Exposures Qualifying for Hedge Accounting* (the "ED").
2. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting its views on EFRAG's draft comment letter through the FEE comment letter to EFRAG dated 16 January 2007. We have also considered EFRAG's final submission to the IASB of 15 February 2008. In general we support EFRAG's final comment letter. We have indicated where we are in agreement with EFRAG's comments and where we are in disagreement our own views are put forward. Below we set out our general observations. Our responses to the Invitation to comment of the ED are presented in the Appendix to this letter.
3. We support the Board's intention to clarify exposures eligible for hedge accounting in order to converge the divergences in practice. However, we share EFRAG reservation on whether it is appropriate to amend the main body of IAS 39 by defining the items eligible to hedge accounting on the basis of a limited list of risks and portions.
4. Like EFRAG, we believe it would appear preferable that the standard be amended to set out the principles to be applied in assessing whether a risk is eligible for hedge accounting of financial instruments, for example on the basis of the main criteria established in the standard on what constitutes a qualified hedging relationship: designation of fair value or contractual cash-flow, effectiveness, etc. The application of these underlying principles could then be illustrated in the Application Guidance by the examples currently proposed.
5. Consequently, we do not support the proposed amendments, which add more rules to IAS 39 whereas IAS 39 in our view is already too rules-based and we strongly believe a principle-based solution to this key issue based on the requirements of predictability and separate measurability (see IAS39 AG100) can be found, since the rules-based approach will hardly form an effective solution in the current rapidly developing diversity of financial instruments and hedging practices. Such new principle-based solution should clarify what risks qualify for



designation as hedged risks when an entity hedges its exposure to a financial instrument, and which portions of a financial instrument an entity may designate as a hedged item.

6. In case the Board adheres to the current approach despite of the key concerns stated above, we agree with most of the detailed observations mentioned by EFRAG in its final letter. In our opinion, providing a limited list of risks eligible to hedge accounting may result in unjustified restrictions. This is illustrated as detailed in paragraph 7 in the Appendix of the EFRAG Final Comment Letter by the omission of the equity risk, particularly because separate hedging of the equity risk for equities denominated in foreign currency should be allowed in practice. Another undesirable consequence of stipulating the risks that can be hedged is that the list could become obsolete sooner or later.
7. Like EFRAG, we are of the opinion that the guidance provided in AG99E-amended is unclear since it does not deal specifically with hedging with options which is however the issue dealt with by IFRIC which led to its inclusion in this ED. It seems that the IASB considers that hedging a portion of cash-flows of a financial instrument and hedging only certain risks such as the downside or the upside risk are part of the same issue, without taking into consideration the specificities of one side risk hedging strategies. In particular, there is no guidance on how to compute the changes in fair value of the cash flows of the hedged item when hedged with options, i.e. what about the distribution of probabilities of the hedged cash flows? We also have the impression that using the hypothetical derivative method for assessing hedge effectiveness when hedging with options would not be allowed even if such a method is explicitly permitted in IAS 39-IGF5.5 for interest rate swaps and IAS 39-IGF5.6 for forward contracts for effects comparable to the time value of an option. For these reasons, we would suggest that the IASB redrafts this paragraph in order to deal specifically with the issue of hedging with options.
8. The ED does not deal with hedging of non-financial instruments. However, we believe that there should be a balanced approach in that the hedging of both financial and non-financial instruments should be addressed in the same way.
9. Our responses to the Invitation to comment of the ED are presented in the Appendix to this letter.

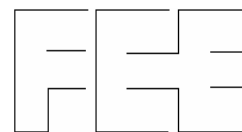
We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jacques Potdevin', with a long horizontal line extending to the right.

Jacques Potdevin
President

Ref: ACC/JP/LF-SR



APPENDIX

Responses to the Invitation to comment of the Exposure Draft:
Proposed Amendments to IAS 39 Financial Instruments: *Recognition and Measurement* Exposures
Qualifying for Hedge Accounting

Question 1 – Specifying the qualifying risks

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

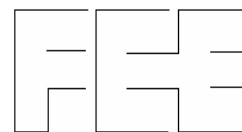
Do you agree with the proposal to restrict the risks that qualify for designation as hedged risks? If not, why? Are there any other risks that should be included in the list and why?

Draft EFRAG comments on the IASB approach to the proposed amendment to restrict risks and portions eligible for hedge accounting

1. Like EFRAG, FEE does not support the IASB's proposed amendments. In our view, it would appear preferable that the standard be amended to set out the principles to be applied in assessing whether a risk is eligible for hedge accounting of financial instruments, for example on the grounds of the main features mentioned in the standard on what constitutes a qualified hedging relationship: designation of fair value or contractual cash-flow, effectiveness, etc. The application of these underlying principles could then be illustrated in the Application Guidance by the examples currently proposed.
2. We agree with EFRAG's observations on a rules-based approach. We understand the logic for not finding convincing the rules-based approach proposed, as detailed in paragraph 3 in the Appendix of the EFRAG Final Comment Letter.
3. We agree with the IASB that as a general principle hedging a risk that does not exist in the hedged item should not be allowed. Accordingly, we do agree that it is not possible to identify inflation as an eligible risk component in a fixed rate instrument. However, we disagree with paragraph 80Y(e) as it is currently drafted even if we recognize that it addresses the issue of hedging inflation in a fixed rate instrument. In particular, we are unsure whether this limitation could note have unintended consequences on certain hedge relationships that have not yet been identified. Also we are uncomfortable with the new notions introduced by the IASB in § 80Y(e) since they do not apply for example to hedging credit risk. It is impossible to say that credit risk corresponds to a risk associated with contractually specified cash flows or it is not a residual component. We believe that the IASB should redraft more carefully § 80Y(e) and clarify the underlying principle.
4. We support EFRAG's observation on the fact that equity risk is missing from the list of risks eligible to be designated as hedged risks under hedge accounting provisions of IAS 39, as detailed in paragraph 7 in the Appendix of the EFRAG Final Comment Letter.
5. We support EFRAG's comments on the inconsistency in the list of risks in paragraph 80Y.

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?



6. We agree with the overall comments made by EFRAG, we have the same observations as mentioned in Question 1. We consider that it would be preferable to ask the Board to define a principle enabling an entity to identify a portion instead of stating a limited list of hedgeable portions.

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?

7. We refer to our general remarks in paragraphs 3 and 4 of the covering letter.
8. We share EFRAG's comments on the fact that the proposed treatment for inflation should not lead to important restatements because we are not aware of a divergence in existing practice.
9. We agree that there is currently some divergence in practice in designating in a hedge relationship the time value of a hypothetical written option as discussed in paragraph 7 of the covering letter and would prefer an explicit solution in line with the needs of preparers of financial statements rather than creating a further difference to US GAAP.

Question 4 – Transition

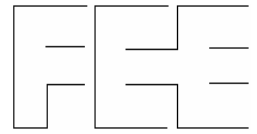
The proposed changes would be required to be applied retrospectively.

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

10. We agree with EFRAG's general position to prefer the retrospective application of the changes in standards rather than prospective application, as long as retrospective application does not cause practical problems that cannot be overcome by a longer lead-time. However, we also agree with EFRAG's comments that, as far as the proposed amendments are concerned, retrospective application would not be possible in some circumstances, as detailed in paragraph 12 in the Appendix of the EFRAG Final Comment Letter. On the basis of the practical issues that can arise, we do not support retrospective application of the amendments proposed in the ED. Companies that have applied IAS 39 in good faith before should not be forced to go back and reconsider what they have done before.
11. We support EFRAG, as we believe that such prospective application would be more appropriate in practice. In particular, when a change would affect the way to document hedge relationships, it would be difficult to do this retrospectively, as the documentation needs to be made at inception in order to apply hedge accounting.

Other comments

12. We agree with EFRAG that the proposed guidance in AG99E is not appropriate. Like EFRAG, we are of the opinion that the guidance provided in AG99E-amended is unclear since it does not deal specifically with hedging with options, which is however the issue dealt with by IFRIC that led to its inclusion in this ED. It seems that the IASB considers that hedging a portion of cash-flows of a financial instrument and hedging only certain risks such as the downside or the upside risk are part of the same issue, without taking into consideration the specificities of one side risk hedging strategies. In particular, there is no guidance on how to compute the changes in fair value of the cash flows of the hedged item when hedged with options, i.e. what about the distribution of probabilities of the hedged cash flows? We also have the impression that using the hypothetical derivative method for



assessing hedge effectiveness when hedging with options would not be allowed even if such a method is explicitly permitted in IAS 39-IGF5.5 for interest rate swaps and IAS 39-IGF5.6 for forward contracts for effects comparable to the time value of an option. For these reasons, we would suggest that the IASB redrafts this paragraph in order to deal specifically with the issue of hedging with options.

13. The ED does not deal with hedging of non-financial instruments. However, we believe that there should be a balanced approach in that the hedging of both financial and non-financial instruments should be addressed in the same way.