

Dr. Alexander Schaub  
Director General  
European Commission  
Directorate General for the Internal Market

1049 Brussels

15 April 2005

Dear Dr. Schaub,

**Adoption of Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions**

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of **Amendments to IAS 39 Financial Instruments: Recognition and Measurement - “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”**, as published by the IASB on 14 April 2005.

The amendments allow entities to designate in certain circumstances a forecast intragroup transaction denominated in a foreign currency as the hedged item in consolidated financial statements. Thus, these amendments allow an exception from a general principle in IAS 39 that only a transaction external to the entity can be designated as a hedged item.

EFRAG supports these amendments for the following reasons.

- The amendments are in compliance with the functional currency framework in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and are expected to achieve the same accounting result as the more complex solution based on the designation of a transaction external to the entity as a hedged item, thus making it much easier to apply the Standard.
- The amendments reflect how many entities manage foreign currency risk thus largely matching hedge accounting to how entities hedge economically; and

- They eliminate a difference between IFRS and US GAAP that appeared difficult to justify and thereby facilitate application of hedge accounting for US registrants.

The amendments are effective for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

EFRAG also supports the transitional provisions of the amendments which reduce certain practical difficulties in adopting these amendments by entities.

EFRAG has evaluated these amendments to IAS 39 based on input from standard setters and market participants in accordance with EFRAG's due process. EFRAG supports the amendments and has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. they are not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the amendments to IAS 39 Financial Instruments: Recognition and Measurement - "Cash Flow Hedge Accounting of Forecast Intragroup Transactions", and, accordingly, EFRAG recommends their adoption. Furthermore, we think it is important to endorse these amendments by no later than December 31 2005 to make them applicable to the 2005 financial year.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen  
**EFRAG, Chairman**