



International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE

14 April 2005

IASB issues amendment to hedge accounting provisions of financial instruments standard

The International Accounting Standards Board (IASB) today issued an amendment to the hedge accounting provisions of IAS 39 *Financial Instruments: Recognition and Measurement*.

The IASB developed this amendment after constituents raised concerns that it was common risk management practice for entities to designate the foreign currency risk of a forecast intragroup transaction as the hedged item and that IAS 39 (as revised in 2003) did not permit hedge accounting for this. Furthermore, IAS 39 (as revised in 2003) created a difference from US accounting requirements on this point.

Following publication of an Exposure Draft and extensive consultation with constituents, the IASB has decided to allow the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in consolidated financial statements. This is consistent with the provisions of the international accounting standard on foreign currency, IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Introducing the amendment, Sir David Tweedie, IASB Chairman, said:

The amendment issued today allows many entities to use hedge accounting for foreign currency risk in a way that matches current risk management practice. The amendment follows extensive consultation with many of our constituents.

The primary means of publishing Standards and amendments to Standards is by electronic format through the IASB's subscriber Website. Subscribers to the IASB's Comprehensive Subscription Service are able to access the amendment published today through the secure

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Printed copies of Amendments to IAS 39 *Financial Instruments: Recognition and Measurement—Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (ISBN 1-904230-80-6) are available at £10 each, including postage, from IASCF Publications Department (order copies online through the IASCF shop: www.iasb.org).

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NOTES TO EDITORS

About the Amendment

1. IAS 39 *Financial Instruments: Recognition and Measurement* is the international accounting standard on the recognition and measurement of financial instruments.
2. The amendment permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements.

3. The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in IAS 39 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.
4. Lastly, the amendment contains detailed transition rules. It has an effective date of 1 January 2006, although earlier application is encouraged.

About the IASB

5. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.
6. A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.

