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Berlin, 8 October 2004

Dear Sir David

### **ED amendments to IAS 39, Cash Flow Hedge Accounting of Forecast Intra-group Transactions**

We appreciate the opportunity to comment on the Exposure Draft of proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement, Cash Flow Hedge Accounting of Forecast Intra-group Transactions.

#### **Question 1**

Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?

#### **GASB's comment:**

We generally agree with the Board's clarification that in consolidated financial statements a group can designate as the hedged item, in a foreign currency cash flow hedge, a highly probable forecast external transaction if the proposed criteria are met. However, since we regard the Board's decision not to adopt the guidance in IGC 137-14 when revising IAS 39 in 2003 as unambiguous, we are not convinced of the need for this clarification.

#### **Question 2**

Do the proposals contained in this Exposure Draft appropriately address the concerns set out in paragraph 3 of the Background on this Exposure Draft? If not, why not and how would you address these concerns?

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**GASB's comment:**

Though we generally support the Board's decision, we do not believe that the proposals set out in the Exposure Draft address the concerns brought forward by constituents. As far as we know, it is common practice to designate forecast intra-group transactions and to enter into derivatives to hedge the resulting exposures. Since the group (or the holding) hedges the net risk position rather than the risk of a single external transaction, it might be difficult to associate the hedging instrument with a certain external transaction. Whilst we acknowledge this being an issue of macro-hedging, in our view the proposal of using the forecast internal transaction as "tracking mechanism" might not be appropriate to solve the entities' problems arising from the elimination of IGC 137-14. Furthermore, the proposals of this Exposure Draft diverge as well as the revised IAS 39 from SFAS 133, which explicitly permits hedge accounting for foreign currency risk on forecast intra-group transactions.

However, we did not understand the proposed clarification being intended to address the concerns about the cancellation of IGC 137-14 as the Board has confirmed that forecast intra-group transactions cannot be considered as hedged items.

**Question 3 – Other comments**

Do you have any other comments on the proposals?

**GASB's comment:**

No.

If you would like any clarification of these comments, please do not hesitate to contact me.

Yours sincerely,

*Prof. Dr. Klaus Pohle*  
President