



4 December 2007

Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via email: commentLetters@iasb.org

Dear Sir or Madam

Exposure Draft of Proposed Amendments to IAS 39 Exposures Qualifying for Hedge Accounting

Thank you for the opportunity to comment on the Exposure Draft of Proposed Amendments to IAS 39 Exposures Qualifying for Hedge Accounting.

CPA Australia's comments have been prepared in consultation with members through our Asia Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, China and Oceania, and our Financial Reporting and Governance Centre of Excellence.

CPA Australia does not support the proposed amendments, if those amendments are to be read to limit the risks which are eligible to be designated for hedge accounting.

CPA Australia reads the first sentence of paragraph 80Y to mean a financial instrument may be designated as a hedged item with respect to any risk present. CPA Australia supports this. However, CPA Australia finds the final sentence of paragraph BC6 problematic – as it articulates the International Accounting Standards Board's proposal as being to limit IAS 39 in some explicit way – for example, to only allow a financial instrument to be designated as a hedged item from one or more of interest rate risk, foreign currency risk, credit risk, prepayment risk and the risks associated with the contractually specified cash flows of recognised financial instrument. CPA Australia finds this apparent tension between the first sentence of paragraph 80Y and the final sentence of paragraph BC6 together with the second sentence of paragraph 80Y problematic. CPA Australia does not support any limitation of the risks that may be hedged.

Some of our members have questioned whether "extension risk" is a risk that for which an instrument should be able to be designated as a hedged item (where extension risk is the risk that a securities underlying principal and/or interest payment terms may be extended at the discretion of the issuer. As such it represents an optionality risk in the holder of a security or financial instrument). Other members have asked whether "profit risk", which CPA Australia understands is the risk most commonly hedged in Islamic banking transactions is a risk that may be hedged CPA Australia believes it would be useful if the finalised amendment addressed the issue of extension and profit risks.

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au or John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser at john.ngiam@cpaaustralia.com.au.

Yours sincerely

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cc : D Boymal / M Shying / J Ngiam / D Pratt

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