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Shane Buggle  
Group General Manager Finance

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Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
P.O. Box 204  
Collins Street West Vic 8007

Dear David

**Exposure Draft 158: Proposed Amendments to AASB 139 Financial Instruments: Recognition and Measurement-Exposures Qualifying for Hedge Accounting.**

Thank you for the opportunity to comment on this exposure draft.

As an overriding comment, we always support further application guidance on the implementation of AASB 139, as this assists preparers when complying with hedge accounting requirements and reduces divergence in practice. However, we observe that the proposed changes to the main body of the standard do not set out a clear principle, but rather provide a prescriptive list of risks qualifying for hedge accounting. This deviates from the underlying fundamentals of the International Financial Reporting Standards, that is, to be a principles based accounting framework.

We expect that the International Accounting Standards Board (IASB) will continue working on formulating an overarching clear principle for this area.

Our detailed comments on specific matters raised in the exposure draft are attached to this letter.

Should you have any queries on our comments, please contact Justin Lachal, Head of Financial Policy at [justin.lachal@anz.com](mailto:justin.lachal@anz.com).

Yours sincerely

**SHANE BUGGLE**  
**Group General Manager Finance**

### **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?*

We agree that the risks qualifying for designation as hedged risks in the proposed exposure draft are those most commonly hedged in practice. We also note the proposal retains the flexibility inherent in the current standard, by allowing entities to hedge the risks associated with the contractually specified cash flows of a recognised financial instrument. The proposed amendments provide clarifying rules regarding the concept that any exposure, which is identifiable and separately measurable, may be designated as a hedged item.

We observe, however, that the list of risks qualifying for hedge accounting is prescriptive in nature, and thus is in the nature of a rules-based authority, rather than principles based. In this respect, we believe this list may be better placed as application guidance rather than as part of the standard. We expect that the IASB would continue to work on formulating an overarching clear principle for this area.

### **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?*

We recognise that hedge accounting under AASB 139 provides entities with an ability to designate only a portion of the cash flows of a financial instrument as a hedged item. We welcome the Board's decision to retain this approach and we agree that guidance is required in this area, primarily to ensure that the situations in which ineffectiveness exists, but is not recognised, are minimised.

Further, we believe that the list of portions of cash flows that may be designated as a hedged item covers the most common situations in practice. This new proposed guidance will not restrict reporters in their application of hedge accounting, as it does not unduly reduce the population of items subject to hedge accounting.

### **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?*

As mentioned above, we welcome the additional guidance as it helps to reduce uncertainty and divergence in practice. However, without an underlying principle clearly articulated, there will always be a risk of divergence arising in practice in any area not sufficiently illustrated in either the standard itself, or the accompanying application guidance.

Furthermore, we believe that the proposed guidance should be very specific and clear that it relates to the hedged item and not to effectiveness testing of that item. To illustrate, consider the clarification that the time value of an option may not be included in designated hedged risk because the hedged item as a whole does not contain such identifiable cash flows (refer proposed AG99E). We appreciate that the restrictions in AG99E aim to clarify the inability to designate as the hedged item a cash flow that does not exist in the financial instrument as a whole.

However, commonly accepted hedge effectiveness assessment and measurement methodologies use a non-existing hypothetical instrument (e.g. a bond or derivative). In instances where only a portion of cash flows is hedged, when constructing the hypothetical instrument, the entity often has to infer some cash flows, as this is the only way to isolate the impact on the fair value of the hedged item of changes in the hedged risk.

It is our view that the proposed amendments should be very specific to ensure that an entity may not infer cash flows in the hedged item, but an inference of cash flows when performing effectiveness testing is acceptable. If this were not the case, the proposed amendments would create considerable divergence from current practice.

#### **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?*

We agree that this proposed amendment should be applied retrospectively and that its first-time application should not entail significant cost or effort, based on requirement in IAS 39 to document hedging relationships. Retrospective application by the entities that have previously designated risks that no longer qualify in the proposed amendment should ensure comparability.