



March 2011

MEMBERS'
UPDATE
Accounting

EACT - Comment Letter to IASB on Hedge Accounting

In response to the request for comment, the European Association of Corporate Treasurers (EACT) has submitted a letter to the International Accounting Standards Board (IASB) in respect of their proposal to overhaul the accounting rules in relation to hedge accounting.

While supportive of the IASB's endeavours and aims, the comment letter does make a number of points from its membership where it considers that the proposals may not go far enough.

These include:

- The need for the flexibility to de-designate hedges to be retained where this is in line with current risk management practice. A typical example of this is in relation to the hedging of sales where a hedge relationship is typically de-designated once the sales invoice becomes an on Balance Sheet item. Similarly, the EACT notes the preference of its members to maintain the ability to use undiscounted spot FX rates when assessing hedge effectiveness if this is in line with the risk management strategy.
- A reconsideration of the need for regular and mandatory rebalancing of hedges, noting that the decision regarding hedging is a complex one taking account of many factors (including risk appetite) and the mandatory rebalancing introduces an ongoing operational overhead which may act as a disincentive to hedging.
- Some further relaxation of the proposed requirements in relation to hedges of non financial items to allow this amendment have a wider use in practice.
- A recommendation that the disclosure requirements be revisited from an operational perspective to ensure that they strike a balance between providing useful information to the reader of the accounts and not requiring the publication of commercially sensitive information (which tends to produce boiler plate type disclosures).

The full text of the EACT submission can be found at:

http://www.eactnew.org.uk/docs/EACT_letter_in_response_to_IASB_ED_2010_13.pdf

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www.treasurers.ie

e: info@treasurers.ie