THE INTERNATIONAL GROUP OF IGTA TREASURY ASSOCIATIONS

Press release

Position of IGTA on IAS 32 / 39

London, December 2004

The member associations of the IGTA and Treasurers generally across the world have had a keen interest in the development of the accounting standards for Financial Instruments and have been closely involved in reviewing and commenting publicly on those standards. Prior to the introduction of these standards it was a concern that the financial statements of companies could be misleading if significant positions in financial instruments were not disclosed in the annual accounts. We therefore have been supporters of new accounting standards that include the principle of recording the fair value of financial instruments in the accounts. Nevertheless IGTA noticed that there exist some important remaining deficiencies in the standards.

The IGTA is delighted to have a representative on the international working group, which is to assist the IASB in its review of the shortcomings of IAS 39. We hope that this group and the IASB will quickly introduce guidance or changes to address the key deficiencies in the standard, which we summarise below:

Hedging

- The IASB has included very specific rules as to what will qualify as a hedge and by doing so disallows many normal transactions that should treated as hedges. There is a grave danger that companies will change their hedging policies so as to produce a favourable short term accounting treatment and this may be detrimental to the real economic needs of the company.
- Alternatively, companies will follow good economically justified practices and continue to use financial instruments, but because of the strict hedging criteria may end up with reported results which are volatile and misleading and require lengthy management explanations and justifications.

Treasury centre netting

- For large groups there are considerable administrative and dealing efficiencies to be gained by centralising currency exposures into a group treasury department, which is able to net off compensating exposures arising across the group. The treasury department then only needs to hedge the net amounts in the external financial market. Under IAS 39 this sort of activity is not effective in accounting terms because of the limitations on hedge accounting treatment that can be used.

Hedging of Intercompany Cash Flow Forecasts

- Forecast intercompany transactions cannot be hedged items, although this matter is currently subject to review through an Exposure Draft. The proposed solution is not practical and fully satisfactory for corporate who would prefer to be simply allowed to hedge such internal transactions.

Hedging of tender portfolios

- For companies, whose tender periods are on several years basis (engineering, aircraft, defence…) and for which the FX rate used in the tender is a key element of the project, IAS 39 as it does not recognize macro hedging of a tender portfolio will lead to large swings in results.

Convergence with US GAAP

In drafting the international standards on Financial Instruments there are several occasions where the IFRS differ from the equivalent US standards. While it is not surprising to find small differences, the IGTA regrets that several of these differences seem to have little justification and introduce an unwelcome complexity into the accounting procedures (absence of short-cut method, prohibition of hedge accounting for intercompany cash flow forecast, prohibition of netting of FX positions,..).

EU endorsement

We regret that EU endorsed so late the IAS 32 and 39. The involvement of the European Commission in amending IAS 39 for European endorsement has created uncertainty up to the end of 2004 for implementation in 2005 leaving too little time for corporations to finalise their systems and procedures. We regret the decision of the ARC (Accounting Regulatory Committee) to recommend endorsement of an amended standard, which did not take into account corporate treasurers concerns.

There are grounds for believing that the IASB has given less attention to the submissions made by representatives of the corporate sector than has been the case for the financial sector. And the last IASB Exposure Drafts on IAS 39 delivered at a very late stage in the timetable has not allowed sufficient time for the due consultation process.

The European Commission has proposed a change to IAS 39 so that liabilities cannot be fair valued through P&L under the “Fair Value Option”. This is particularly detrimental to corporates. Previously the fair value option would have provided a mechanism to allow natural offsets in circumstances where full hedge accounting was not available.

Furthermore by creating a cut-down standard, which is not the full IASB standard there is a risk that recognition of IFRS as an acceptable accounting standard for US regulatory purposes is lost. It could create more work for companies listed in Europe or outside the USA and in the USA because they would continue to prepare IFRS accounts as International Accounting Standards.

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