



**IGTA**  
**International Group of Treasury Associations**

**PRESS STATEMENT – 23 September 2003**

**IAS 32-39: the position of the  
International Group of Treasury Associations (IGTA)**

**IGTA supports the principles behind IAS 32-39 but believes changes need to be adopted before it can be implemented:**

- IGTA and its 26 member Associations consider that **IAS 39 should not be adopted without these essential changes**
- The IASB's detailed rules for implementation of the principles of IAS 39 have serious potential impact on companies and may make effective hedging much more difficult and considerably more expensive to achieve for many companies
- Simple changes, wholly consistent with the principles of IAS 39, are available to solve the problem, and would bring IAS 39 more closely into line with US GAAP's FAS 133 in these areas
- IGTA supports the IAS 39 principles of marking positions to market as long as these are consistent with sound financial management
- IGTA considers that hedging of financial price risks by companies is important to them and to financial stability generally

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**For further information, please contact:**

**Francois Masquelier** (President EACT) on [Francois.masquelier@rtlgroup.com](mailto:Francois.masquelier@rtlgroup.com)

**David Creed** (Honorary Secretary of the IGTA) on [honsec@igta.org](mailto:honsec@igta.org)

**NOTES TO EDITORS**

The International Group of Treasury Associations (IGTA) was formed to enhance activities of Treasury Associations across nations. It encourages the highest standards of professional ethics and best practice among treasury professionals world-wide and campaigns to raise the profile of the treasury profession. For further information please visit [www.igta.org](http://www.igta.org)

# Comments on behalf of The International Group of Treasury Associations

*in response to IAS 32-39*

## **I. Introduction**

### **IGTA**

The International Group of Treasury Associations (IGTA) was formed to enhance activities of Treasury Associations across nations.

IGTA's objectives are to:

- Encourage the highest standards of professional ethics and best practice among treasury professionals world-wide.
- Raise the profile of the treasury profession.
- Explore the development of reciprocal memberships benefits.
- Encourage the exchange of information, business practices, and details of various local regulations

## **II. Comments**

Corporate treasurers already have practical experience of applying the new derivative accounting standards and are therefore well-placed to comment on the impact of IAS 32/39. The prudent management of risk with derivatives is central to the contribution made by treasurers to the prosperity of corporations in Europe and globally.

However many of our members feel that certain aspects of the detailed rules are particularly problematic, since they are inconsistent with sound current treasury practices.

We believe that a re-assessment and clarification in these areas will significantly ease the implementation burden for many corporates and will contribute to a better alignment of IAS 39 with best practice.

In particular, two major issues which significantly impact corporate treasury activities were raised in comment letters submitted to the IASB by the euro-zone grouping (the European Association of Corporate Treasurers) and by the UK group (the Association of Corporate Treasurers), as well as many others; these have still not been satisfactorily addressed by the IASB.

The two issues are:

1. Treasury centre netting for foreign exchange hedging transactions (paragraph 134 of the current draft of IAS 39 and IGC item 134-1-b). IGTA strongly suggests that this area be clarified in the standards itself and that a limited exception to paragraph 134 (126B in the exposure draft) should be allowed for foreign currency hedging via a treasury centre, consistent with the principle in US GAAP (FAS 133) and with the objective behind IGC interpretation 134-1-b.

***Failure to make this change to the standards will lead to significant additional costs, both operational and financial, being incurred by many companies. It will leave companies reporting under IAS, notably in Europe, at a significant disadvantage compared to their US GAAP-reporting competitors.***

2. Availability under IAS of the short cut method for hedges involving interest rate swaps. We would strongly support allowing the US GAAP approach in this area, since this would both significantly ease the implementation burden for simple hedging strategies and would achieve convergence with the FAS 133 approach.

***The complexity of applying the IAS rules as they currently stand imposes a burden which, for some companies, will outweigh any financial reporting benefit and may also cause some companies to decide to cease hedging interest rate and foreign exchange risk. In the interests of easing the implementation burden for companies using only basic hedging strategies and to ensure that appropriate risk management principles continue to be applied by all companies, IGTA believes that the short cut method and the use of treasury centre netting should be allowed under IAS. Such a change would also achieve the objective of convergence with US GAAP.***

IGTA is extremely concerned that the IASB has not addressed these two major issues for corporate treasurers, even though these support a move towards harmonisation with US GAAP. The convergence of the two sets of standards should be an objective pursued by both the IASB and the FASB.

IGTA supports the underlying principles and general approach behind the standards. We welcome the IAS 39 principle of marking the financial position to market. It has the potential to bring clarity to a difficult area and thereby potentially improve transparency in financial communication which will in turn contribute to general financial stability.

IGTA believes that the major principles behind both IAS 39 and FAS 133 (clear risk management policies, documentation at inception, linkage between hedges and exposures, and monitoring of effectiveness) are appropriate and consistent with the existing internal control and risk management practices of well run corporate treasury operations.

Of the 7000 companies that will be affected in 2005 by the requirement to apply IAS standards, the vast majority of these are non-financial institutions, for whom the greatest impact of IAS 32 and 39 will be felt in the area of treasury. We call on the IASB to address the concerns of corporate treasuries and of the associations (the members of IGTA) that represent them.

Corporate treasurers, through the various treasury associations, have set out to be constructive and positive in the debate over IAS 32 and 39. However, we believe that while the principles underlying IAS 39 are important and correct, without the changes for which we call (and which are wholly consistent with the principles) we would not be able to recommend adoption of IAS 39. The objective is to improve IAS 32 and 39 and to better align the standards with the practices of sound treasury management. The changes which IGTA is requesting are essential, realistic, practical and in its view necessary.

Contacts:

**Francois Masquelier**

Chief Executive, Association des Trésoriers  
d'Entreprise à Luxembourg (ATEL)

[francois.masquelier@rtlgrou.com](mailto:francois.masquelier@rtlgrou.com)

David Creed

Honorary Secretary, IGTA

[honsec@igta.org](mailto:honsec@igta.org)