Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France MEDEF

The Chairman of the IFRS IC
Columbus Building, 7
Westferry Circus
Canary Wharf
London E14 4HD.

21 November 2018

Dear Ms Lloyd,

Re : Tentative agenda decision “**application of the Highly Probable Requirement in a Cash Flow Hedge Relationship (IFRS 9 and IAS 39)**

We welcome the opportunity to comment on the above tentative agenda decision published in September 2018. Although we do not contest the strict interpretation of related standards (IAS 39 and IFRS 9), we believe that the resultant outcome is meaningless [in some circumstances] and therefore ask the Committee to consider developing an amendment to the standard.

Actually, when a hedging instrument is built in such a way as to absorb all the uncertainty related to the occurrence of the forecast transaction, we believe that the standard should permit an exemption to the first step in the qualification process which is to ensure that future cash flows are highly probable.

Such an exemption should be limited only to circumstances where the hedging instrument is certain to match all uncertainty about the forecast transaction, either because the nominal will vary depending on the outcome of the hedged item, or because the hedging instrument itself will automatically be cancelled in case of non-occurrence of the forecast transaction. This is for instance the case when an instrument hedges the foreign currency risk on a forecast business combination or forecasted cash flows from a tender.

We understand that the highly probable criterion is an anti-abuse measure designed to prevent entities from deferring changes in fair value, but in all cases presented above there is no risk of abusive designation as a hedge since the hedging is perfectly effective. Furthermore, applying hedge accounting will improve the relevance of financial statements by providing a better link between an entity’s risk management and its financial reporting.

Finally, in all other cases of cash flow hedge relationships, we agree that an entity should consider uncertainty over both the timing and the magnitude of the forecast transaction in assessing whether it is highly probable. However, we believe that it is not appropriate to refer only to paragraphs of a standard that is no longer in force, at least for those many preparers who have chosen to move to IFRS 9 for hedge accounting. We therefore ask the Committee to consider reintegrating the related implementation guidance in IFRS 9.

If you require any clarification or information, please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs