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**Re: Exposures qualifying for hedge accounting.**

Dear Sirs,

We are pleased to provide our comment on the “Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: *Recognition and Measurement Exposures Qualifying for Hedge Accounting*”.

**Questions**

1.

*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?*

**Comment**

The aim of clarifying better some aspects of a very complex accounting principle is to be welcomed and, therefore, we support it.

Some types of risks covered by the new paragraph 80Y that seem to be exhaustive suggest that the price risk correlated to capital financial instruments should be added. Indeed, for such instruments, as this type of risk is not expressly included among those that can be designated, it could be deduced that it is possible to designate only the exchange risk (which is one of the factors that affect the price but obviously not the only one) or the entire risk of the financial instrument but not only the price risk (excluding the exchange risk).

This request for a further supplementing leads on to a broader consideration. The IFRS principles are “principle-based” and as such little suited to having included within them lists or specific examples that could well be incomplete or obsolete within a short time given the changing financial world. Therefore, we would rather see implementation of the “application guidance” than a supplementing of the accounting principle.

Furthermore, we agree with EFRAG’s comment concerning point e) of paragraph 80Y. Indeed, from the example provided in the second part of said point, it can be deduced (as should be the

case) that the designation of a single contractually specified cash flow can occur only if this specific cash flow is independent of any remaining cash flows that are unhedged.

2.

*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?*

As already stated in our comment on Question 1 above, we would suggest including the examples on the designation of portions of cash flows in the implementation guidance.

Furthermore, we would like to point out an inconsistency between the first part of paragraph AG99E and the “carved out” IAS 39 approved by the European Commission.

The new paragraph AG99E indicates that a cash flow that is not contractually specified cannot be designated as a hedged item. Paragraph AG99C permits the designation as a hedged item of a portion of the cash flows arising from a financial instrument that represents a part of the overall cash flow of the instrument. This point was “carved out” by the European Commission to enable the designating of “core deposits” that have an interest rate equal to zero or at least below the market rate. The above-mentioned phrase in the new paragraph AG99E would seem to again prevent the designating of “core deposits” and, therefore, if retained, would need to be “carved out” by the European Commission.

3.

*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?*

We believe that the proposed amendments in the new paragraphs (with the exception of that mentioned in our comment on Question 2 concerning the designating of core deposits) do not entail significant changes to existing practice.

4.

*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?*

Although, as already noted, significant impacts on existing practice are not expected, it would seem preferable to apply the new changes prospectively. In hedging operations, it would be difficult to re-state those not aligned with the new provisions, and companies would be forced to close ongoing operations early to then re-open them on the basis of new contracts.

Yours sincerely

Prof. Angelo Provasoli  
(OIC – Chairman)