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Mr Wayne Upton
Chairman, IFRS Interpretations Committee
IFRS Foundation
30 Cannon Street
London EC4M 6XH
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Our ref MV/288
Contact Mark Vaessen

20 January 2016

Dear Mr Upton

Tentative agenda decision: *IFRS 9 Financial Instruments—Determining hedge effectiveness for net investment hedges*

We appreciate the opportunity to comment on the above IFRS Interpretations Committee (the Committee) tentative agenda decision included in the November 2015 IFRIC Update. We have consulted with, and this letter represents the views of, the KPMG network.

We agree with the Committee's tentative decision that this issue need not be added to the Committee's agenda. However, we disagree with certain aspects of the wording of the tentative agenda decision.

As the Committee observes, paragraph 6.5.13 of IFRS 9 states that 'Hedges of a net investment in a foreign operation … shall be accounted for *similarly to* [italics added] cash flow hedges …' and paragraph 6.5.13(a) refers to paragraph 6.5.11, which deals with the accounting for cash flow hedges, and includes what the Committee describes as the 'lower of' test.

The tentative agenda decision then states: "This indicates that the 'lower of' test should be applied when determining the effective portion of the gains or losses arising from the hedging instruments when accounting for net investment hedges."

However, in describing the 'lower of' test, IFRS 9.6.5.11(a)(ii) refers to the "cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows)." This guidance is not capable of literal application to a net investment hedge because it is a hedge of foreign exchange differences arising under IAS 21 *The Effects of Changes in Foreign Exchange Rates* on a net investment that is not measured at fair (or present) value and there are no hedged cash flows.

Therefore, we think that the Committee should clarify that:

- the effective portion of the gains and losses on the hedging instrument should be based on an approach *similar to* that set out in IFRS 9.6.5.11(a) for cash flow hedges; and

- given the different nature of a net investment hedge and the guidance in IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, and depending on how the hedge is designated, the amount calculated with respect to 6.5.11(a)(ii) may be determined in accordance with IAS 21 – i.e. the recognised IAS 21 translation differences on the hedged item rather than changes in fair/present value.

Please contact Mark Vaessen or Chris Spall on +44 (0) 20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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cc: Reinhard Dotzlaw, KPMG LLP (Canada)