GREENWICH TREASURY ADVISORS
Treasury Management Consulting

Key FAS 133/IAS 39 Difference

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Major Differences

- IAS 39 basically encompasses FAS 115 and FAS 133, so we will mention a few financial instrument accounting differences
- The major difference, of course, is IFRS's principles-based approach versus US GAAP's rules and bright lines
  - Under IFRS, preparers and auditors are required to look through to the economics of the transaction and pass less attention to the form
  - However, where IFRS is silent, often auditors and preparers will turn to US GAAP for guidance

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Important Reference Sources

- ***2008 IFRS Bound Volume*** As of 1/1/08, it includes all approved IFRS and IASB standards, Interpretations and Implementation Guidance
  - The IG to IAS 39 is quite extensive and useful and is a must reference source for going to IAS 39 hedge accounting
  - IASCF shop at www.iasb.org.
- Also Deloitte's ***iGAAP 2007 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained***
  - Extremely valuable guide to IAS 39, with good discussions of FAS 133 differences
  - www.cch.co.uk, £65

Major Differences – Financial Instruments

Issue	Differences
Loans and receivables can be designated as AFS	Allowed under IAS 39, not under FAS 115
Investments in unlisted securities	Under 39, fair value if they can be reliably measured, otherwise historic cost. FAS 115 requires historic cost.
Reversal of impairment losses on investments	Under 39, required for AFS and HTM; not allowed at all under 115.
Convertible debt	IFRS requires convertible debt to be split between equity and debt, no such bifurcation in US GAAP.

Major Differences – General Hedging

Issue	Differences
Derivative definition	IAS 39 defines a derivative similarly to FAS 133, except that it does not require a notional amount, unlike FAS 133. This distinction could make a difference regarding whether there exists an embedded derivative that needs to be bifurcated and reported separately.
Probability of Hedged CF Items	39 requires that hedged forecasts must be highly probable and provides some detailed guidance, while FAS 133 requires that the forecast be probable and provides little guidance. It is possible that some FAS 133 probable hedges would not be allowed under FAS 133 by a strict auditor.
Critical Terms Match	Allowed prospectively under 39, but not retrospectively. Allowed for both under 133, but is now considered a dangerous choice
Shortcut Treatment	Allowed prospectively under 39, but not retrospectively. Allowed for both under 133, but is now considered a dangerous choice

Major Differences – General & FX Hedging

Issue	Differences
CF Hedged Item basis adjustment	Under IFRS, there is the option to adjust the hedged item's basis to reflect the AOCI gain/loss, while under 133, no basis adjustment is allowed.
Credit risk of derivative counterparty	Per IAS 39 Implementation Guidance F.4.3, counterparty credit risk must be included in any IAS 39 hedge documentation. This is not explicitly required in FAS 133, but is very often done.
Hedging FX Exposures	133 requires that the entity with the FX exposure must do the hedging. 39 allows the hedging to be done in any group company.
Option hedging under G20	39 has nothing comparable to G20 and requires that option hedges must exclude time value in calculating effectiveness, something whose P&L impact makes option hedging unattractive to many.
Foreign currency acquisition firm commitments	Hedgeable under 39, not hedgeable under 133

Major Differences – FX & Interest Rate Hedging

Issue	Differences
Hedging inter-co interest, royalties and O/H charges	Per the IAS 39 April 2005 Amendment, interco royalties, interco interest, O/H and other management charges between units are not considered to affect consolidated net income and thus they are not hedgeable items under IAS 39, unlike FAS 133.
Netting of cash flow hedges	IAS 39 has no equivalent of FAS 133.40A-C regarding netting of CF exposures. Under 39, hedges need to be hedged gross with an interco derivative from the hedging center to the sub and an external matching derivative. Practically, IFRS treasuries hedge the net and ask their banks to provide trade confirms for the gross exposures.
B/S foreign currency items	Can be used as Cash Flow hedge instruments under IAS 39, but not for FAS 133.
Partial term interest rate hedges	Effective hedges under 39. While permitted under 133, partial term hedges probably would not be effective hedges.

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Impact on FAS 133R on IAS 39

- Since the FAS 133R Exposure Draft was written in consultation with the IASB, it is likely that any changes made to FAS 133 will be reflected in IAS 39 at some point
- However, as explained in the FAS 133R presentation, it is not at all clear that FAS 133R will be finalized in its present form

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About Greenwich Treasury — 1

Since 1992, Greenwich Treasury Advisors has been delivering integrated treasury solutions for over 300 global businesses:

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About Greenwich Treasury — 2

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Hydro-Quebec	TRW Automotive

Jeff Wallace

- Founded GTA in 1992, and author of:
  - *The Group of 31 Report: Core Principles for Managing MNC FX Risk* (Association for Finance Professionals, 1999)
  - FAS 133 chapter of *The Handbook of International Finance & Accounting* (2004, John Wiley)
- Advised over 50 companies and six system vendors, Financial Sciences, FXpress, Principia Partners, Simcorp, SunGard and Wall Street Systems, on FAS 133 compliance
- Formerly VP-International Treasury at American Express, AT at Seagram and at D&B; CPA at PW
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