



LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD

11 January 2008

The Chairman  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
UNITED KINGDOM

Dear Sir David,

*IASB EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 39  
FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT –  
EXPOSURE QUALIFYING FOR HEDGE ACCOUNTING*

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The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on the Exposure Draft of Proposed Amendments to *IAS 39 Financial Instruments: Recognition and Measurement - Exposures Qualifying for Hedge Accounting* (ED).

Having reviewed the ED, we support IASB's effort in providing additional guidance with regard to exposures qualifying for hedge accounting. We are in favour of the proposals but wish to point out significant concerns on items which extend beyond hedges of financial items.

Whilst we do understand the scope of the ED was to confine to financial items, we strongly believe that addressing specific area of non-financial items would enhance the degree of applicability of the Standard. In this respect, we specifically refer to hedges of non-financial items, details are illustrated below.

*Non-financial hedged item*

At present, IAS 39 restricts the hedging of a risk portion of a non-financial hedged item to only foreign currency risk; otherwise, the non-financial item should be hedged in its entirety. The Board's presumption was that changes in the cash flows or fair value of a portion of a non-financial hedged item are difficult to isolate and measure.

We believe there are situations where the portion of cash flows of non-financial items can be identified and measured reliably, as evidenced by the hedging of jet fuel and crude oil which industry players apply extensively in practice.



In the case of a non-financial item such as jet fuel, it is not difficult to isolate and measure the changes in the price of a component of the jet fuel. Market price of jet fuel can be looked at in its entirety or can be broken down into the price of crude oil plus the jet fuel crack spread, both of which are traded separately in the financial markets. The same holds true for gas oil. Therefore, we believe the IASB should reconsider allowing an entity to designate the price changes of a jet fuel component, such as crude oil as the hedged risk.

Given that there is more liquidity in crude oil for positions beyond one year, many airlines will enter into long term hedges with crude oil to hedge their jet fuel exposure. They can choose to buy the crack spread derivative at a later date (e.g. as the period to maturity approaches one year) to effectively end up with a jet fuel hedge. In practice, even if the hedge can be expected to be highly effective due to high correlation of the price movements of crude and jet fuel, the actual effectiveness may fall outside of the 80-125% range as stipulated in IAS 39, and the hedge will have to be dedesignated. This can have a counter productive impact in that even though using crude oil derivatives as a hedging instrument make economic sense, airline results can fluctuate widely depending on the volatility of crude oil prices. In this regard, we believe the IASB should reconsider the condition of hedging effectiveness for jet fuel due to the special properties of jet fuel prices.

Other than the aforementioned, we also strongly suggest that the risks identified in paragraph 80Y of the Exposure Draft be extended to non financial items, such as fuel based products, where they satisfy appropriate criteria.

*Other comment: Amendment to paragraph AG99E*

We suggest paragraph AG99E be amended to allow for the designation of inferred cash flows from hypothetical derivatives under specified conditions such as when the designation is used in an actual and documented risk management strategy.

If you need further clarification, please feel free to contact the undersigned at +603 2715 9199 or e-mail at [nordin@masb.org.my](mailto:nordin@masb.org.my).

Yours sincerely,

Dr Nordin Mohd Zain  
Executive Director