REDOVISNINGSRÅDET

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We appreciate the opportunity to respond to IASB´s ED of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – *Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*. The comments in this letter represents the views of the Swedish Financial Accounting Standards Council (SFASC).

Comments to Question 1

We appreciate IASB´s efforts to improve IAS 39 without reconsidering what is deemed to be the fundamental approach to the accounting of financial instruments and the principles that underlie IAS 39 on derivatives and hedge accounting. We find the proposed change to be an acceptable way forward and that the proposed amendments meet the objectives that the IASB has set out in the Background section of the ED.

However, if the objective of the proposed amendments to IAS 39 is to reflect the economics underlying risk management strategies applied in many banks, then there are other approaches that might be more appropriate from a risk management point of view and that, in terms of designation and assessment of effectiveness, are more in line with the entity´s own risk management strategies (see IAS 39 p. 142 (a)). We are not convinced that the Board should point at a single method justifying the use of a fair value hedge accounting methodology.

Applying what is labelled as the principles in IAS 39 on derivates and hedge accounting, we propose the following general approach to fair value hedge accounting for a portfolio hedge of interest rate risk:

a) The entity identifies a portfolio per currency of items at inception whose interest rate risk it wishes to hedge. The portfolio consists of identified assets and liabilities. The entity designates the amount of all assets and the amount of all liabilities as the hedged items. Hedge accounting will be achieved when changes in fair value of the hedged items, as a result of changes in relevant reference interest rate, together with changes in fair value of designated hedging instruments, are recognised. In this way all designated hedged items (assets and liabilities) are reflected at fair value by using the one line approach - one for assets and one for liabilities- with the corresponding gains or losses in the income statement.

b) Contractual repricing dates are used, not expected dates, as there in some markets are no incentives for expecting other than contractual dates. In these markets a fee is charged to compensate for such transactions. If prepayments occur, this reflects a lack of efficiency

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to be treated as such under IAS 39 hedge accounting rules. However, the lack of efficiency could be reduced or eliminated if a policy of “underhedging” (in relation to the pattern based on contractual dates) is applied so that there will be no ineffectiveness as a result of prepayments. This would represent hedging in relation to the expected pattern of repricing dates. The entity will then use and document a hedging relationship applying a model which shows that X% of the amount entered into the hedge portfolio will not last the whole period and thus the designated hedged amount will be X% of the entered nominal amount.

As a result, we believe that Approach C is the most appropriate way of designating the hedged item. Thus we believe, but for slightly different reasons, that the arguments set out by the five dissenting Board members (see Alternative views, AV1 and AV2) are convincing.

Applied to changes in the credit-rating of the financial institution´s loans, such changes are looked upon as prepayments and treated as lack of efficiency under IAS 39.

Apart from what is said under a) and b) above, the rest of our proposed approach is identical or very similar to the approach suggested in Appendix A, A26.

Comments to Question 2

We agree.

Other comments

We have noticed some language in the Basis for conclusions that we find difficult to understand and to reconcile with the Board´s role. In BC30 the following is said: "The Board considered dealing with this concern by *permitting* the change in value to be presented in a single line item in the balance sheet." In BC35: "The Board decided to *permit* the hedging instrument to be a portfolio for derivatives containing offsetting risk positions." The bases for these positions do not come through in a transparent manner.

The entering of language of this nature into the Basis for conclusions may puzzle preparers and users of the standard to come, as the background of the “permits” is not clearly reflected in the proposed text. This makes the forthcoming standard more complicated to understand and apply. As far as we understand the Board should fullfil its objectives according to its Constitution and make decisions based on analyses and relevant arguments. The acitivity of "permitting" should not be part of the Board´s portfolio of possible actions; it might give the flavour of an “institution” or a “court” with powers to decide but without an obligation to supply backing arguments. We would therefore suggest the Board to consider using a language in the BCs that adopts a style that is fully in line with the spirit of the Board´s objectives.

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The Swedish Financial Accounting Standards Council

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