DEN DANSKE BØRSMÆGLERFORENING

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Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk

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The Danish Securities Dealers Association welcomes the opportunity to comment on the exposure draft regarding fair value hedge accounting for a portfolio hedge of interest rate risk.

We would like to emphasize that although the exposure draft brings progress in some areas there still remain important issues that are unsolved.

In order for companies to use fair value hedge accounting on portfolio basis it will be fundamental that the final wording of IAS 39 is much more principle based and does not restrict the designation of the hedged item to one specific approach. If this is not he case, there will be a need for the standard to be revised once the first experiences of accounting for macro hedging the proposed way has been done.

In general a more principle-based approach to many accounting issues under IAS 39 would be preferred and could be done without sacrificing the quality of the financial reporting and the need of investors. Accounting for impairment of loans is an obvious candidate.

We have the following remarks to the questions raised in the exposure draft:

<u>Question 1:</u>

In order for hedge accounting to be applicable for companies a principle-based approach is fundamental. Controlling interest rate risk in companies is not done in a way compatible with the proposed method of designating a percentage of assets or liabilities as the hedged item. Instead there is a need for a principle-based framework that allows various methods of designating the hedged item as long as the economic rational principles are upheld. Hedging gross amounts of assets or liabilities should be allowed for.

An example of a principle in the current proposal that does not reflect true economic reality is a partial hedge relationship where we find it reasonable to assume that prepayments are connected to the position that is not naturally hedged or hedged by derivatives since there is still full offset between gains or losses on the naturally hedged position and on derivatives and hedged assets or liabilities.

Question 2:

On a portfolio level we find it natural that core deposits can be used for hedge accounting based on the expected behavioral pattern.
We see a high degree of similarity between this issue and the use of expected reprising dates when grouping items into maturity buckets.

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Kind regards

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