The institute of Thai Accountant and Auditors of Thailand

Comment on the Exposure Draft of Proposed Amendments to [Draft] IAS 39 August 2003

Question 1

Draft paragraph 128A proposes that in a fair value hedge of the interest rate risk associated with a portion of a portfolio of financial assets (or liabilities), the hedged item may be designated in terms of an amount of assets (or liabilities) in a maturity time period rather than as individual assets or liabilities or the overall net position. It also proposes that the entity may hedge a portion of the interest rate risk associated with this designated amount. For example, it may hedge the change in the fair value of the designated amount attributable to changes in interest rates on the basis of expected, rather than contractual repricing dates. The ineffectiveness arises if the expected repricing dates are revised, or actual repricing dates differ from those expected.

Although the majority of Thai banks apply the overall net position method in their fair value hedge, most of the Thai Banks agree with the portfolio hedge of interest risk the proposed designation, which the hedged item may be designated in terms of an amount of assets (or liabilities) in a maturity items period. However, practically, it would take a certain period of time for the banks to prepare the systems or make any arrangement necessary to be able to implement the portfolio hedge of interest rate risk.

Measuring Ineffectiveness

The Thai Bank representatives agree that approach D is the proper method to measure the ineffectiveness when the prepayment occurs. The prepayment risk is closely related to the interest rate risk (ie The prepayment would occur if the market interest rate decreases.) Base on the notion of portfolio hedge on the interest rate risk exposure, when the prepayment occurs, the ineffectiveness arising from the decrease in assets should apply to the assets as a whole not in a particular portion (ie hedged or unhedged portion only). Since the hedged item would be expressed as an amount rather than as individual assets, applying the percentage of the designated hedged assets (or liabilities) to the total assets (liabilities) in a certain maturity period on the changes in assets is a fair estimate of the ineffectiveness. The Thai Bank representatives also agree with the Board opinion that approach D is the most consistent with IAS 39 to record the ineffectiveness from the hedge when it arises.

Question 2

Draft paragraph A30(b) proposes that all of the assets (or liabilities) from which the hedged amount is drawn must be items that could have qualified for fair value hedge accounting if they had been designated individually. It follows that a financial liability that the counterparty can redeem on demand (ie demand

deposits) cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counterparty can demand payment.

Do you agree that a financial liability that the counterparty can redeem on demand cannot qualify for fair value accounting for any time period beyond the shortest period in which the counterparty can demand payment?

Contractually demand deposit itself is not qualified for fair value hedge, since the depositor could demand the repayment at any time. However, most of the Thai banks would consider the historical behaviour of customers. (ie expected demand repayment dates) for their risk management purpose. The depositors usually deposit in their accounts for a long period of time. Thus, demand deposit should be qualified for a fair value hedge.

a) Yes, we do agree that in general the fair value of such a financial liability is not less than the amount payable on demand. In Thailand, the interest rate rates on demand deposit are usually float rates (ie the bank could adjust the interest rate once every three months), which usually results in the equal amount of the fair value of demand deposits and its payable amount. Some portion of the deposit is subject to the float rate but some is subject to the fixed interest rate. Thus, the banks do consider demand deposits when they evaluate their positions and perform risk management.

Please notes that the issues of "Being qualified for a fair value hedge" and "The need/ likelihood to be hedged" are different. These two issues should be considered separately. Demand deposit is qualified for a fair value hedge although it seems like there is no need to hedge this item. While the chance to hedge the demand deposit itself is very minimal, its amount is used to calculate the amount of the assets to be hedged.