

---

Project	<b>Financial Instruments (Replacement of IAS 39) – Hedge Accounting</b>
Topic	<b>Macro hedge accounting – cover paper</b>

---

## Introduction and background

1. This paper provides an overview to the Staff's approach in developing a fair value hedge accounting model for a portfolio of prepayable fixed rate assets/liabilities.
2. Entities that have applied (or attempted to apply) the current portfolio fair value interest rate hedging model in IAS 39 (hereafter referred to as 'PFVHA') have experienced many difficulties. Many of these difficulties arise from the complexity of the portfolio being hedged and the complex 'mechanics' of the hedge accounting model.
3. The key accounting issues were highlighted to the Board at the September 2010 meeting (see agenda paper 14B). At that meeting board members expressed a willingness to consider the issues outlined. However, some board members requested further background to the issues to assist them to make informed decisions.

### ***Purpose of this paper***

4. The purpose of this paper is to set out the key steps that the staff will follow to assist the Board to make informed decisions on a final model. There are no questions to the Board in this paper.

---

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

IASB Staff paper

***Papers to be presented***

5. Firstly, the staff will present two papers to ‘set the scene’. These papers will assist the Board to:
  - (a) Understand the economics behind a bank’s interest rate hedging strategy (ie ‘what are they trying to achieve’) (see **agenda paper 10A**).
  - (b) Understand the basic accounting objective that banks are trying to achieve that effectively reports the economic objective in 5(a) (see **agenda paper 10B**).
6. With this background, the staff will then present separate papers dealing with the issues noted in paper 14B presented at the September 2010 meeting.
7. The first set of papers considers the issues that arise from identification and designation of the hedged item in a PFVHA model. In particular:
  - (a) **Agenda paper 10C**, describes how the current portfolio fair value hedge accounting model requires an entity to identify the hedged items using a *proportional* approach. This paper explains how such an approach does not achieve the objective in 5(a).
  - (b) **Agenda paper 10D**, outlines an approach to address the issue described in 10C and considers an alternative (bottom) *layer* approach to identifying the hedged item.