
Project	Financial Instruments: Hedge Accounting
Topic	Macro Hedge Accounting: Preliminary Project Plan

Purpose of this paper

1. In their comment letters to the exposure draft *Hedge Accounting* many respondents encouraged the Board to continue deliberations of hedge accounting for macro hedging and open portfolios. This is viewed as an important step to further align risk management and accounting requirements especially for the financial services industry but also other industries.
2. This paper gives an overview of the preliminary project plan for the development of hedge accounting requirements for open portfolios and macro hedging.

Preliminary project plan

3. We identified the following areas that need to be discussed and require decisions to develop a hedge accounting model for macro hedging and the management of open portfolios:

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Topics for discussion

Topic 1: Hedged items

- Definition of the unit of account (individual items, entire portfolio, layers).
- Identification of risk components for portfolio strategies, incl. sub-Libor items.
- Consider difference in the definition of the hedged risk for macro hedging approaches like the definition of risk limits rather than a static hedge ratio.
- Management of portfolios on the basis of expected behaviour (eg core demand deposits, prepayable financial instruments).

Topic 2: Hedging instruments

- Deliberations on strategies that use internal transactions to transfer risk to other business units that follow a different risk management approach.

Topic 3: Identification and recognition of ineffectiveness

- To be developed on the basis of tentative decisions on topics 1 and 2 to consider differences in risk management approaches on a macro level.

Topic 4: Adjustments to hedging relationships

- Development of a concept that allows changes to a continuing hedging relationship as macro hedging strategies often lead to frequent adjustments of the hedge position in response to changes in exposures.
- Identification of situations that require discontinuation of hedge accounting.

Topic 5: Hedge accounting model and related accounting mechanics

- Develop an accounting model that fits the discussion above.

Topic 6: Scope, Presentation, Disclosures and Transition

- Discussion whether separate requirements regarding the scope, presentation and transition are needed.
- Develop additional disclosures that address characteristics of accounting for macro hedging and risk management of open portfolios.

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4. From the topics above we developed the following *rough* timetable.

Timeline	
Deliberate issues and develop macro hedge accounting model	Q2 / Q3 2011
Publication of Exposure Draft	Q3 / Q4 2011