

STAFF PAPER

20 May – 24 May 2013

IASB Meeting

Project	Novation of derivatives and continuation of hedge accounting		
Paper topic	Due process consideration		
CONTACT(S)	Won-Hee Han	whan@ifrs.org	+44 (0)20 7246 6960

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. The purpose of this paper is to set out the due process steps undertaken by the IASB in completing the narrow-scope project of *Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9)*.

Background

2. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether hedge accounting should be discontinued in a circumstance in which a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty (CCP) as a consequence of laws or regulations.
3. This issue was discussed by the Interpretations Committee and subsequently by the IASB. The IASB noted that the novation of a derivative contract to a CCP would meet the derecognition requirements both for financial assets and financial liabilities in IAS 39. Consequently, the IASB noted that an entity whose hedging instrument is novated to a CCP would be required to discontinue hedge accounting for the hedging instrument because the novation would meet the derecognition requirements both for financial assets and financial liabilities in IAS 39. The IASB also noted that the new

derivative, with a counterparty being the CCP, would be recognised at the time of the novation.

4. The IASB, however, was concerned about the financial reporting effects (for example, more hedge ineffectiveness) that would arise from the novation as a result of new laws or regulations. The IASB, taking note of these financial reporting effects, was convinced that accounting for the hedging relationship that existed before the novation as a continuing hedging relationship in this specific situation would provide more useful information to users of financial statements.
5. The IASB also considered the fact that the legislative changes that would require such novation of derivatives would be widespread across jurisdictions. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.
6. Consequently, the IASB decided to propose a narrow-scope amendment to IAS 39 and IFRS 9 to provide a relief from discontinuing hedge accounting in a circumstance where the hedging instrument is novated from one counterparty to a CCP as a consequence of laws or regulations, if specific conditions are met.

Due process

7. The IASB and IFRS Interpretations Committee *Due Process Handbook* ('the *Due process Handbook*'¹) sets out due process requirements for finalising a Standard.
8. In the following sections, we analyse whether the IASB has complied with all necessary due process steps based on the *Due Process Handbook*.

Consideration of comments received and consultation

Publishing an Exposure Draft

9. The IASB published the Exposure Draft ED *Novation of Derivatives and Continuation of Hedge accounting (proposed amendments IAS 39 and IFRS 9)* in February 2013. The proposed amendments were a response to an urgent request for

¹ [IASB and IFRS Interpretations Committee Due Process Handbook, approved by the Trustees January 2013](#)

guidance for novation arising as a consequence of legislative and regulatory changes, prompted by a G20 commitment. Given the urgency of the issue, the ED had a comment period ending on 2 April 2013 after the approval from the Trustees' Due Process Oversight Committee (DPOC).

Comment letter received

10. 76 comment letters were received on the ED. A comment letter analysis will be presented to the IASB at the May 2013 meeting², along with this paper.

Further consultation

11. We did not conduct other formal outreach such as public hearings and round-table meetings because this project is a narrow-scope amendment. We also did not undertake a separate consultation with the IFRS Advisory Council because of the narrow scope nature of the amendment.

Finalisation

Balloting

12. We will recommend at the IASB May 2013 meeting that the IASB begin balloting process following the IASB's deliberation at its May 2013 meeting.

Drafting

13. We have not undertaken the steps that are necessary to ensure drafting quality yet. We will request the review of the Translation team, the XBRL team and the Editorial team once the IASB decides to proceed with balloting process.

Publication

14. We will undertake the due process for publication as required by the *Due process Handbook* before issuing the final amendments.

Question

² Please refer to Agenda Paper 19 for the IASB May 2013 meeting.

Appendix A sets out the due process steps that have been completed and that remain to be completed. Is the IASB satisfied that the IASB has performed all necessary due process steps?

Appendix A

Confirmation of Due Process Steps followed in the finalisation of the narrow-scope project of Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9)

The following table sets out the due process steps followed by the IASB in the development of the narrow-scope project of Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9)

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
Consideration of information gathered during consultation				
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	76 comment letters received – all posted on IASB website.
Round-tables between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	N/A
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>Meetings held.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers posted in a timely fashion.</p> <p>Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them.</p>	<p>The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted.</p> <p>The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed.</p> <p>The DPOC has met with the Advisory Council to understand stakeholders' perspectives.</p> <p>The DPOC has reviewed and responded to comments on due process as appropriate.</p>	<p>The IASB discussed the project at its January 2013 and February 2013 meetings. The IASB will be presented with a comment letter analysis on the Exposure Draft at its May 2013 meeting.</p> <p>All board meetings have been held in public.</p> <p>Staff papers have been made available in advance of the IASB meeting on the IASB's website.</p> <p>The project website contains a full description with up-to-date information on the project.</p> <p>The proposed amendment is narrow in scope and occupies little of the IASB's time. Given the</p>

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
				limited nature of the project and the narrow scope of the proposed amendment, the IASB does not undertake a separate consultation with the Advisory Council.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or on-going associated costs.	Required	Publication of the Effect Analysis.	The IASB and the DPOC have reviewed the results of the Affect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	The staff assessed the likely effects of the proposed amendment as limited because the scope of the proposed amendment is narrow. The staff provided the IASB with a description of the financial reporting effects of the proposed amendment at the January 2013 IASB meeting, which are included in the Basis for Conclusions of the Exposure Draft.
Email alerts are issued to registered recipients.	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	N/A
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	N/A
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	N/A
Finalisation				
Due process steps are reviewed by the IASB.	Required	Summary of all due process steps have been discussed by the IASB before a Standard	The DPOC has received a summary report of the due process steps that have been	This paper is intended to meet this step.

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
		is issued.	followed before the Standard is issued.	
Need for re-exposure of a Standard is considered.	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	It will be recommended at the May 2013 IASB meeting that re-exposure will not be necessary.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	It will be recommended at the May 2013 IASB meeting that the effective date is set at 1 January 2014 provided that the proposed amendments are issued by the end of the 2 nd quarter of 2013.
Drafting				
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The translation team will review drafts of the final amendments before they are published.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The XBRL team will review drafts of the final amendments before they are published.
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process. In addition, external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before an ED is issued, including the extent to which external reviewers have been used in the drafting process.	The Editorial team will review drafts of the final amendments before they are published.
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been made available to members of the IFASS and	The DPOC has received a summary report of the due process steps that have been	N/A

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
		the comments have been collected and considered by the IASB.	followed before a Standard is issued.	
Drafting quality assurance steps are adequate.	Optional	Draft for editorial review has been posted on the project website.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	N/A
Publication				
Press release to announce final Standard.	Required	Press release has been announced in a timely fashion. Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	Press release will be prepared and reviewed by Comms and Editorial.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	Publication of the Feedback Statement.	The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.	No Feedback statement will be produced because of the narrow scope of this amendment.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Number of podcasts held.	The DPOC has received a report of outreach activities.	N/A
Standard is published.	Required	Official release.	The DPOC has been informed of the release.	The final amendments will be published along with the press release.