International Financial Reporting Standards

Accounting for Macro Hedging Update September 2013

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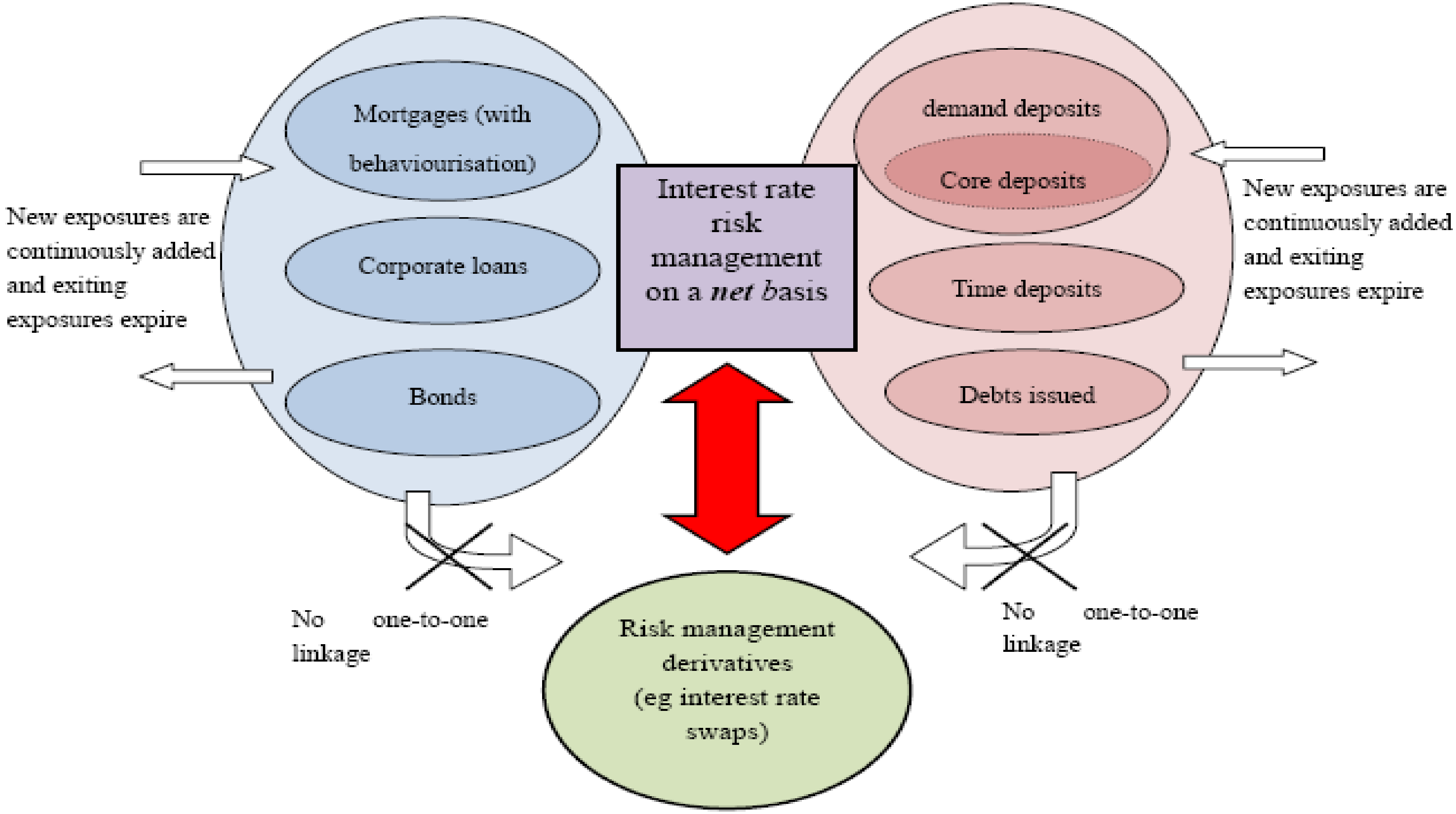
Project overview

- Accounting for **open** portfolios that are **dynamically** managed.
- Hedge accounting is difficult to apply.
- Considering a variety of dynamic risk management activities. Not restricted to banks' interest rate risk management, eg commodity and FX risk.

Dynamic interest rate risk management in banks

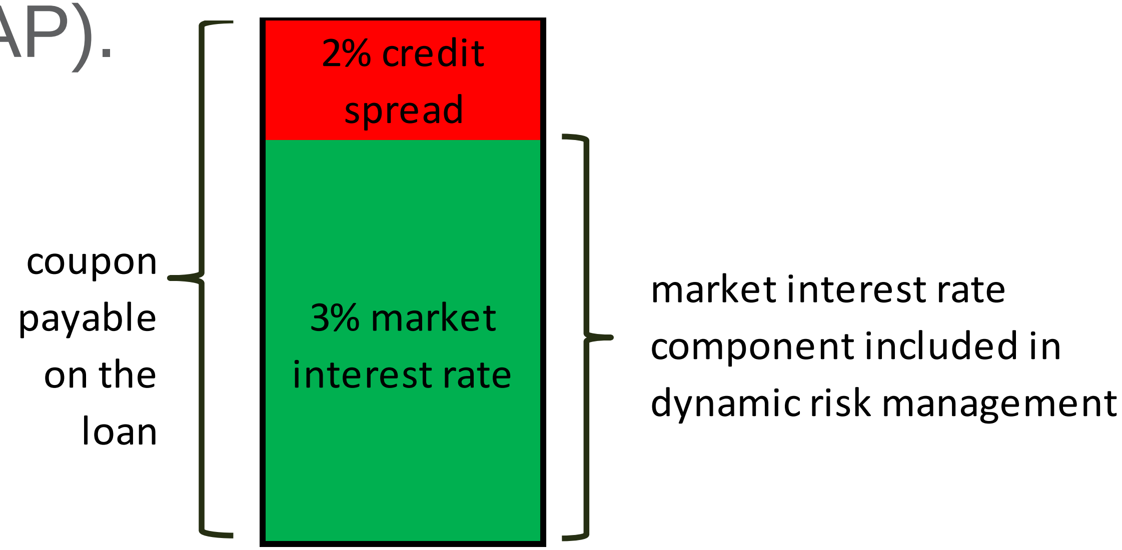


Portfolio revaluation approach overview

- The portfolio revaluation approach itself is simple.
- Exposures are revalued <u>with respect to the managed risk</u>.
- No change to accounting for hedging instruments (FVTPL).
- Offset arises in profit or loss, to the extent of offsetting risk positions. Economic volatility is portrayed consistent with risk management.
- Operational feasibility. No requirement for specific linkage of exposures and hedging instruments.

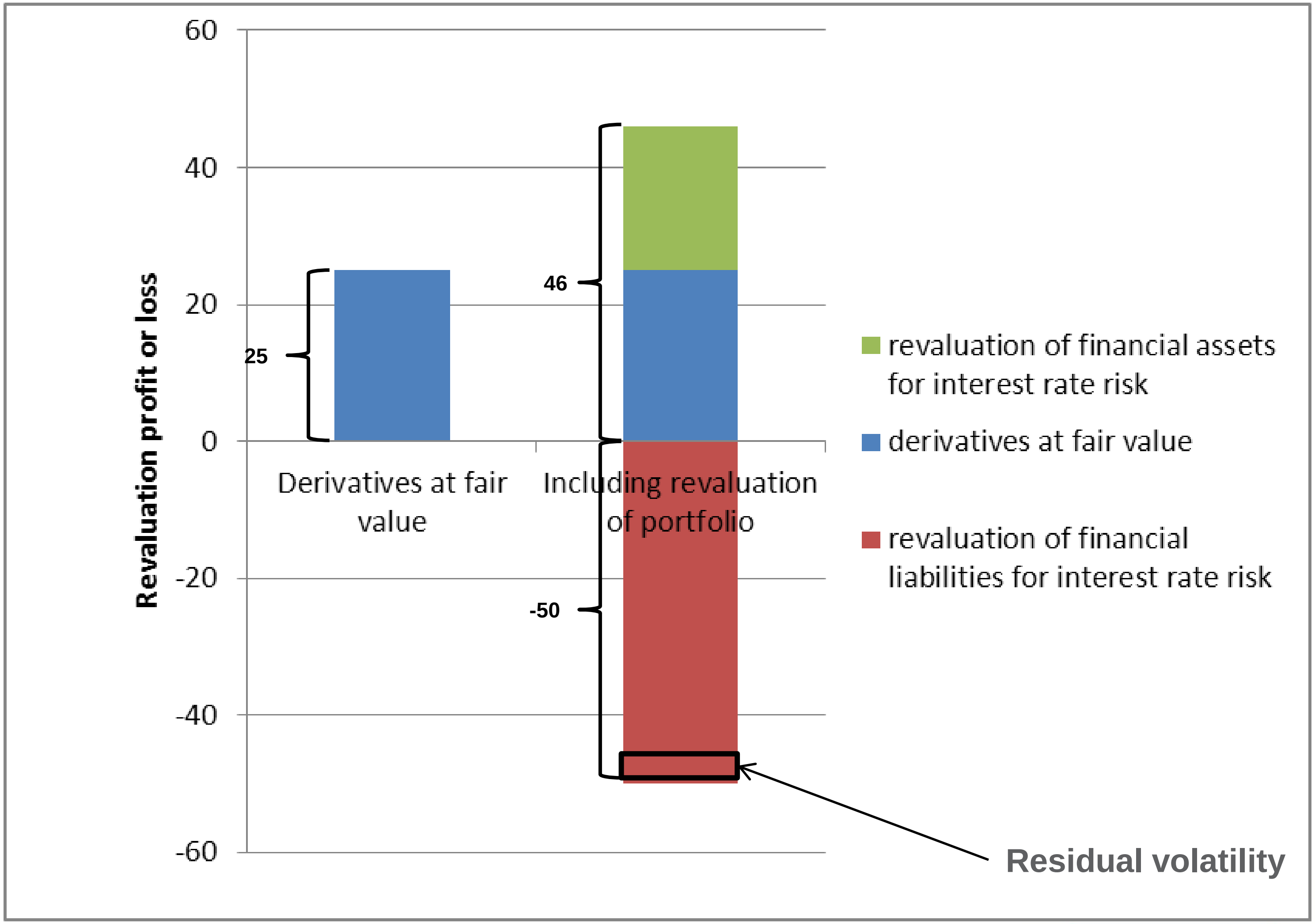
How to revalue

- Individual exposures revalued by calculating **net present value** (NPV) of cashflows with respect to prevailing market **benchmark** interest rates (eg LIBOR-SWAP).

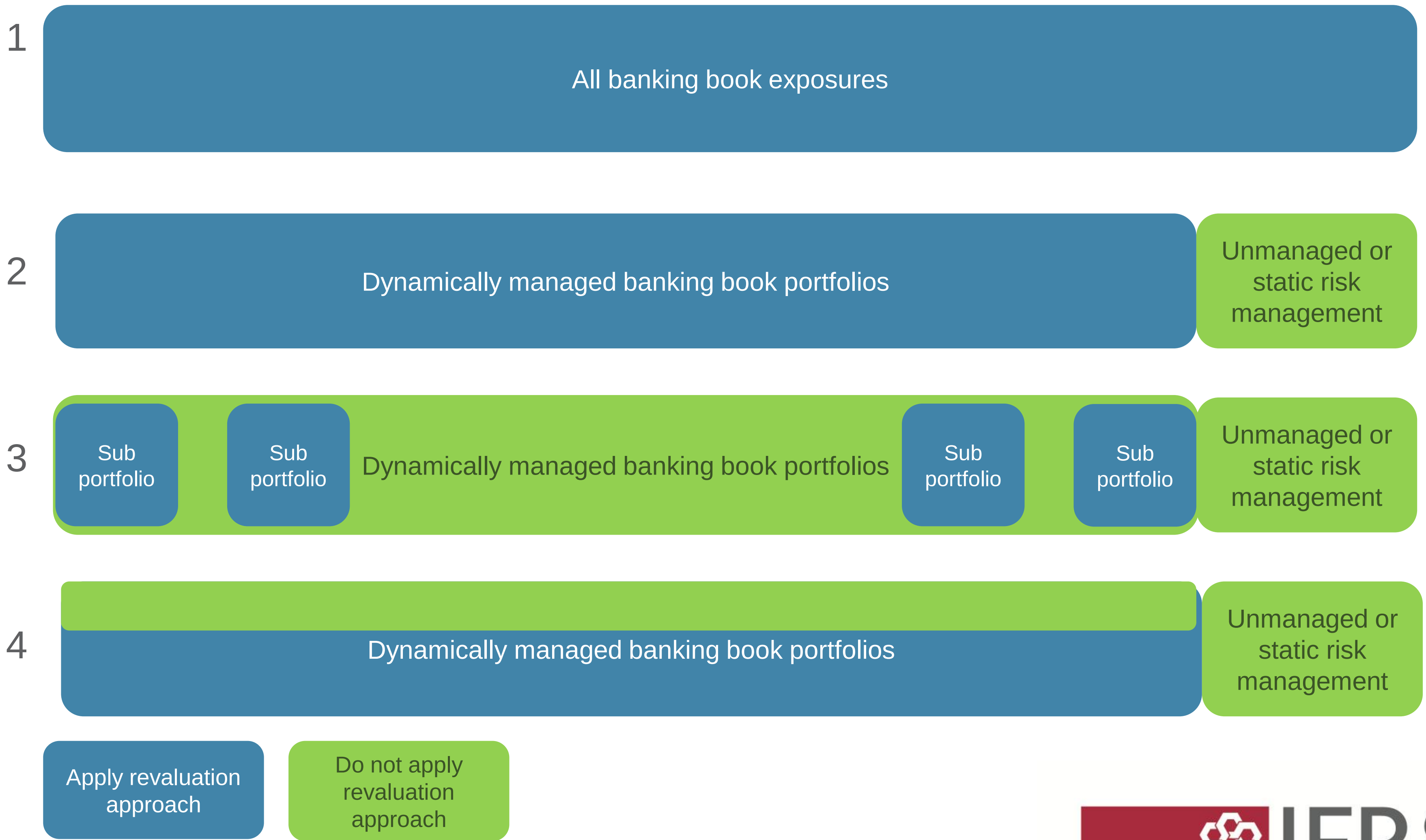


- This approach is **NOT** a full fair value model.

Mechanics of the portfolio revaluation approach



What to be revalued (scope alternatives) – key question



Thank you

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