

STAFF PAPER

February 2015

IASB Meeting

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| Project | Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging | | |
| Paper topic | Comment letter analysis | | |
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Purpose

1. The purpose of this paper is to provide an overview of the agenda papers prepared for the February 2015 Board meeting on the Discussion Paper (DP) *Accounting for Dynamic Risk Management – a Portfolio Revaluation Approach to Macro Hedging*.
2. The objective of the February 2015 meeting is to provide a comment letter analysis to the Board.

Background

3. The DP was the IASB's first step in developing an accounting model for dynamic risk management. The Board started its deliberations on various aspects of accounting for dynamic risk management in September 2010. The objective of the project was to simplify and improve the usefulness of financial statements by developing accounting requirements for hedging within the context of open portfolios that are more closely aligned with a company's risk management activities. The primary drivers for initiating the project were the problems associated with applying hedge accounting, which is a fundamentally static concept (linking hedging instruments to hedged items), to dynamic risk management of open portfolios. Therefore, the Board decided to consider a new model to account for dynamic risk management of open portfolios,

including but not limited to accounting for portfolio fair value hedges which are currently addressed in IAS 39 *Financial Instruments: Recognition and Measurement*.

4. The Board developed the possible accounting model for dynamic risk management with a focus on considering the extent to which accounting standards can and should draw on risk management. Through these discussions a portfolio revaluation approach (by risk) emerged, whereby for accounting purposes the hedged risk position is identified and remeasured for changes in the hedged risk, recognising the resultant gain or loss in profit or loss.
5. The DP was published in April 2014, with a comment period of 180 days. The staff along with Board members have conducted over 50 outreach meetings with constituents across jurisdictions. In addition, the ASAF discussed the topic on more than one occasion and have provided members' views on the DP. A similar process was also followed with the GPF. The outreach covered different types of constituents, including preparers (eg banks, insurance companies and non-financial institutions), users of financial statements, prudential and securities regulators, accounting standard-setters, accountancy bodies and accounting firms. The jurisdictions covered by the outreach included Europe, Asia and Oceania, North and South America and Africa.
6. We have received 126 comment letters to date.

Overview of Agenda Papers

7. For the February 2015 meeting the staff have prepared three papers (Agenda papers 4A, 4B and 4C).
8. The DP included 9 sections covering 26 questions. The comment letter analysis papers have been prepared covering the questions included in each section of the DP.
9. The first paper provides a high level summary of the comments received covering all the sections in the DP.
10. The second paper provides a detailed analysis of the comments received on the following sections of the DP:
 - a. Section 1 Background and introduction to the Portfolio Revaluation Approach (PRA)

- b. Section 2 Overview
 - c. Section 5 Scope
 - d. Section 3 The Managed Portfolio
 - e. Section 9 Alternative approach – PRA through other comprehensive income
11. The third paper provides a summary of the comments received from users during user outreach meetings and also through comment letters.
12. The staff plan to bring the analysis of the comments received on the remaining sections in the DP to the March 2015 Board meeting.