



**ZAMBIA INSTITUTE OF CHARTERED ACCOUNTANTS**

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**International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom**

**E-mail: [commentletters@iasb.org](mailto:commentletters@iasb.org)**

Dear Sir,

**Comments on Exposure Draft – Hedge Accounting**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s Exposure Draft – Hedge accounting.

Our comments on the questions on the exposure draft are as follows:

**Question 1 - Objective of hedge accounting**

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

***Comment***

Yes we do agree with the proposed objective of hedge accounting, because it will improve financial reporting by ensuring that the effect of an entity's risk management is reflected in the financial statements. Additionally principle based approach, will enhance comparability.

## **Question 2 – Instruments that qualify for designation as hedging instruments**

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

### ***Comment***

We agree with the proposal of allowing both a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss to be eligible as hedging instruments. This is likely to widen the scope of instruments that will be eligible as hedging instrument.

## **Question 3 – Derivatives that qualify for designation as hedged items**

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

### ***Comment***

Yes we do agree with the proposal, but there is need to give more practical guidance on accounting treatment.

## **Question 4 – Designation of risk components as hedged items**

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (ie a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

### ***Comment***

We agree with the proposal, provided risk component can be identified and reliably measured.

## **Question 5– Designation of a layer component of the nominal amount**

(a) Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is

affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?

***Comment***

- a) Yes we do agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item, as this is in align with the proposed objective of hedge accounting.
- b) We agrees that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk. We have no divergent views to the board's proposal.

**Question 6 – Hedge effectiveness requirements to qualify for hedge accounting**

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

***Comment***

Yes we do agree that a hedging relationship should meet the hedge effectiveness requirement, so that the objective of Hedge Accounting can be achieved.

**Question 7 – Rebalancing of a hedging relationship**

(a) Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?

***Comment***

- a) We agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, on conditional that the risk management objective for a hedging relationship remains unaltered.
- b) Yes, as this will make hedge accounting relevant.

### **Question 8 – Discontinuing hedge accounting**

(a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

#### ***Comment***

- a) Yes we do agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria, the proposal is more unbiased.
- b) We agree with the proposal, this is an improvement compared to the current requirement in IAS 39 which allows an entity to voluntarily discontinue hedge accounting by simply revoking the designation of the hedging relationship (i.e. irrespective of any reason).

### **Question 9 – Accounting for fair value hedges**

(a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?

#### ***Comment***

- a) Yes we do agree, the proposal will reduce volatility in other comprehensive income.
- b) We agree with the proposal, as it will result in providing more information to the user.

- c) Yes we do agree, linked presentation should not be allowed for fair value hedges. Linked presentation does not highlight different types of risks and the users may not be given meaningful information.

**Question 10 – Accounting for the time value of options for cash flow and fair value hedges**

(a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (eg like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (ie the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?

***Comment***

- a) Yes we do agree, as stated in BC 148. Aligning the accounting for the time value of options will provide more comparable results.
- b) We do agree with the proposal.
- c) We do not support the proposal, as this will complicate the hedge accounting treatment. We proposal the condition be removed.

**Question 11 – Hedges of a group of items and eligibility of a group of items as the hedged item**

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

***Comment***

Yes we do agree, as pointed out by the board (BC 164), an individual hedge approach and a group hedge approach are similar in concept, hence the same eligibility criteria should be used.

### Question 12 – Presentation

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (e.g. in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

#### *Comment*

Yes we do agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement, any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items. This will give more information to the users of financial statements.

### Question 13 – Disclosures

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

#### *Comment*

a) We do agree with the proposed disclosure requirement, as the information which will be provided by the disclosure will be useful and beneficial to the users.

b) We have no other proposal; we think the proposed disclosure requirements are enough.

### Question 14 – Accounting alternatives to hedge accounting

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

#### *Comment*

We do agree with the proposal, because it will lessen the burden of the accountant when accounting for such contracts.

**Question 15 – Accounting for credit risk using credit derivatives (paragraphs BC219–BC246)**

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

***Comment***

a) Yes we do agree that the proposed accounting treatment would add unnecessary complexity to accounting treatment for financial instruments and this may promote subjective accounting.

b) Refer to 15 (a)

**Question 16 – Effective date and transition**

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

***Comment***

We agree with the proposed transition requirements.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi  
**Technical and Standards Manager**