

The Association of Corporate Treasurers

Comments in response to
Hedge Accounting Exposure Draft ED/2010/13
International Accounting Standards Board,
December 2010

March 2011

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website www.treasurers.org.

Contact details are also at the back of these comments.

We canvas the opinion of our members through seminars and conferences, our monthly e-newsletter to members and others, *The Treasurer magazine*, topic-specific working groups and our Policy and Technical Committee.

General

The ACT welcomes the opportunity to comment on this matter.

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The ACT agrees with the overall objectives of the December 2010 IFRS 9 Hedge Accounting Exposure Draft (ED), being to align hedge accounting more closely with the risk management activities, establish a more objective-based approach to hedge accounting, and address inconsistencies and weaknesses in the current hedge accounting standard.

We agree with the IASB's approach of moving from what was a very 'rules based' accounting standard to a more 'principles based' standard. However we don't believe the IASB has gone far enough in this matter and has included some rules to patch up issues that exist in specific industries or sectors under IAS 39 but are not 'fit for all'. This results in unnecessary complexity and, in some instances, the accounting driving the risk management activities instead of the other way around. Proposals to which this comment applies include hedge accounting for net positions, mandatory rebalancing of hedge relationships, prohibition of voluntary de-designation of hedge relationships and the accounting mechanics for fair value hedges.

We believe the disclosure requirements are seeking to be helpful to the investor community. However there is a danger that as proposed, on their own they are positively misleading. Users of accounts need information to understand the total picture of financial risks that the company is exposed to, what has been hedged and, of those, what has been hedge accounted. The exposure draft focuses on those items that have been hedge accounted, however the items not hedge accounted or not hedged at all can far outweigh the size and impact of those that have.

The requirements to disclose forward projections of sales of products and services and purchases of commodities and material, together with details of derivatives hedging these (including hedge amounts and hedged rates) has sparked anxiety amongst treasurers. Companies are not happy about 'giving the game away' particularly if competitors don't have to report under International Financial Reporting Standards (IFRS). Even some users of accounts that we consulted thought that the disclosures had gone too far in potentially disadvantaging companies against their competitors.

Overall though, the ED is one step in the right direction.

Comments on Specific parts of the ED

Objective of hedge accounting (paragraphs 1 and BC11-BC16)

The exposure draft proposed that the objective of hedge accounting is to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss. This aims to convey the context of hedging instruments in order to allow insight into their purpose and effect.

Question 1

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

Subject to some qualifications we agree with defining an objective, specifically the reference to the entity's risk management activities. The placing of a hedge is the activity that arises from an entity's risk management policies. We believe an accounting standard on hedge accounting should require demonstration of the reasonable link between an entity's risk management activities and its financial reporting on a risk by risk basis, e.g. foreign exchange and interest rates by currency, commodities by type, inflation, etc...

However the statement: "from particular risks that could affect profit or loss" we feel is too narrow as there are times when corporates use financial instruments to hedge balance sheet exposures which may not result in a profit and loss impact. For example, in accordance with IFRS 9 certain changes in fair value of certain strategic equity investments are posted to OCI and are never reclassified into the income statement. Furthermore many companies normally hedge cash flows and not profit and loss

impacts¹. A reference to how particular risks affect the “financial statements” would be more appropriate.

Instruments that qualify for designation as hedging instruments (paragraphs 5-7 and BC28-BC47)

Question 2

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?

Yes, in practice a treasurer looks for natural offset of financial risks and does not immediately go to the external market to hedge with a derivative instrument².

Derivatives that qualify for designation as hedged items (paragraphs 15, B9 and BC48-BC51)

Question 3

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?

We agree with the combination of an exposure and a derivative as a hedged item as this allows the accounting to reflect what is sometimes the most practical way for a treasurer to hedge the different risks that may exist in the underlying item. In the context of raising funding in one currency and swapping it into a second currency a treasurer may subsequently want to convert that second currency from fixed to floating (or vice versa) in which case, the ability to designate a derivative as the hedged item is most welcome.

We would ask that further direction is provided on accounting for these layered structures in the application guidance.

Designation of risk components as hedged items (paragraphs 18, B13-B18 and BC52-BC60)

Question 4

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 (i.e. a risk component), provided that the risk component is separate identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

¹ Some companies have started hedging profit and loss effects, e.g. hedging to invoice date rather than expected cash outflow, wholly in order to comply with IAS 39. This is despite the economic inefficiency of hedging this way. This was one of the perverse effects of IAS 39.

² Some companies started gross hedging, despite its inefficiencies, on the introduction of IAS 39. This was one of the perverse effects of IAS 39.

Under current IAS 39 only foreign exchange (FX) risk can be separated from non-financial items. This excluded some risks, such as commodity risks, from being hedge accounted even though they are often being specifically hedged by the treasurer. Hence, we agree with the proposal that other risk components should be allowed to be designated as a hedged item.

We concur with the approach that risk components do not need to be explicitly specified in a contract in order to qualify as a hedged item but can also be implicit in the fair value or cash flows of the contract.

Designation of a layer component of the nominal amount (paragraphs 18, B19-B23 and BC65-BC69)

Question 5

- 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?*
- a) We agree with layered hedging as this reflects the commercial reality of treasury risk management policies.

We have interpreted that the following examples would be eligible components of a nominal amount under the following two approaches:

- on a percentage basis: 60% of variable rate interest payments of a loan
- on a layered approach: for two bonds totalling £100m each, £60m of the total £200m

Under IAS 39, the treasurer had to designate for hedge accounting purposes which specific debt instrument was being hedged by a derivative, which caused problems if that debt instrument was restructured. The exposure draft addresses this issue.

- b) We understand the Board's decision not to allow layered hedging where a prepayment option has been included for banks hedging a portfolio. We have not provided comment on this.

Hedge effectiveness requirements to qualify for hedge accounting (paragraphs 19, B27-B39 and BC75-BC90)

Question 6

Do you agree with the effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what changes do you recommend and why?

IAS 39 permits hedge accounting only if a hedge is highly effective i.e. if the offset is within the range of 80-125%.

The exposure draft proposes eliminating the 80-125% 'bright line' for testing whether a hedging relationship qualifies for hedge accountings and replaces it with a more objective-based assessment. The proposed hedge effectiveness requirements are that in a hedging relationship:

- a) Hedge designation must be unbiased i.e. no deliberate mismatch in weightings between the hedged item and hedging instrument and reflect the optimal hedge ratio to minimise hedge ineffectiveness; and
- b) It is expected to achieve other than accidental offsetting.

We agree that the removal of the arbitrary 80-125% bright line is a step in the right direction, as this did result in some anomalies where perfectly good hedging relationships did not comply. For example, a small number divided by a small number in an effectiveness test calculation could cause a hedge relationship to be ineffective, even though it was an excellent economic hedge.

The requirement for a hedge designation to be unbiased is likely to lead to extensive analysis and debate with auditors. Any ineffective portion will pass through the profit and loss account and this should be a sufficient deterrent. Hence we do not believe the "unbiased" requirement is necessary.

Rebalancing of a hedging relationship (paragraphs 23, B46-B60 and BC106-BC111)

Question 7

- 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?*

The exposure draft proposes that when a hedging relationship no longer meets the objective of the hedge effectiveness assessment but the risk management objective for that designated hedging relationship remains the same, an entity should rebalance the hedging relationship so that it meets the objective of the hedge effectiveness assessment again. In these circumstances the revised hedging relationship should be accounted for as a continuation of an existing hedge rather than as a discontinuation, as is the case currently under IAS 39.

- a) We agree with the introduction of the concept of rebalancing as it acknowledges that a treasurer can and does make adjustments to a hedge without the need to discontinue and then re-designate a new hedge in order to achieve hedge accounting. However we do not agree with mandatory rebalancing of hedging relationships. We believe it should be at the entity's discretion i.e. voluntary and not compulsory. We do not believe that mandatory rebalancing is necessary because any ineffectiveness will flow through the profit and loss account. There may be a potential case where underhedging in a cash flow hedge would result in a shift in

basis risk not impacting the profit and loss. This needs to be further investigated. In addition there may be situations where an entity is not able to trade in the financial markets at the time when the mandatory rebalancing may be required. This could for example arise because of lack of available credit lines or due to insufficient cash available to the entity where the instruments that it would need to use for rebalancing are centrally cleared and require initial and variation margin payments.

Whilst the exposure draft purports to align hedge accounting with risk management by removing the bright lines for hedge effectiveness, it has replaced them with mandatory rebalancing. We also note that a shift in basis risk is not usually instantaneous, as the exposure draft assumes, but are changes due to market fluctuations or market trends that only become apparent over time and can only be confirmed after a long period of observations. The exception to this being a change in the ratio of one currency pegged to another. Given the same risk management objective, different treasurers may take different hedging decisions. Therefore, the treasurer's decision about what level of basis shift might require rebalancing is very subjective as is that of whether the movement in the market is only due to short-term volatility and rebalancing isn't required.

We note that rebalancing is unnecessary in situations where the hedge ratio between the underlying hedged item and hedging instrument is 1:1, i.e. where basis risk doesn't exist. Our feedback indicated that there was some confusion as to what rebalancing is. We believe either the accounting standard or the application guidance notes would be more useful if they also provided further details on relevant situations that require rebalancing including worked examples.

- b) We concur that an entity can, if they wish, rebalance the hedging relationship if they expect the hedging relationship to not meet the hedge effectiveness assessment in the future. We agree that it should be at the company's discretion and not be mandatory.

Discontinuing hedge accounting (paragraphs 24, B61-B66 and BC112-BC118)

Question 8

- 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?*

The exposure draft prohibits voluntary de-designation of a hedging relationship when all the qualifying criteria of a hedge are still met. The IASB are effectively stating that if a company's risk management hasn't changed then the accounting shouldn't change either. However we disagree with prohibiting de-designation of a hedge relationship as this is not aligned with typical treasury risk management practices.

For example, although treasurers often economically hedge a forecast foreign exchange cashflow up to the point of expected receipt or payment, they may only hedge account up to the point of recording the sales invoice or receipt of purchased goods on-balance sheet. This is because they get natural offset by the revaluation of both the on-balance sheet receivable/payable and the hedging instrument from that point in time.

Another example is a company that has an 'in the money' derivative and has a cash shortfall. Currently the treasurer has the freedom to either close out the derivative with their financial institution or to enter into an equal and opposite derivative position. Closing out a derivative is the more expensive alternative because banks charge funding and other costs. When choosing the cheaper alternative, entering into an equal and opposite derivative position, the treasurer de-designates the existing swap so that its fair value as well as that of the new swap offset in the income statement. The risk management objective hasn't changed, the company is still following policy and will enter into a new hedge at current market levels. In this situation the proposals in the ED would either result in a real cash cost to the entity on close out of the existing swap or lead to significant profit or loss volatility because the existing hedge would continue and the offsetting swap would be revalued through the income statement.

However if we ignore the costs involved (such as funding, crossing the bid-offer spreads) the prohibition of voluntary de-designation could relatively easily be over-ridden by a treasurer closing out the existing derivative and taking out a new one.

Accounting for fair value hedges (paragraphs 26-28 and BC119-BC129)

Question 9

- 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?*

Under IAS 39 there are two distinct hedge accounting models, cash flow and fair value. Basically, cash flow hedges are accounted for through Other Comprehensive Income (OCI) and fair value hedges are accounted for by adjusting the carrying value of the hedged item.

The exposure draft goes some way to proposing a single hedge accounting model for both cash flow and fair value hedges as it proposes that all fair value changes in the hedged item and hedging instrument should be recognised in OCI (with ineffectiveness taken to profit and loss). However this only changes the accounting mechanics for fair value hedges and has no overall impact on the accounting result. To the extent a fair value hedge is effective the change in fair value of the hedged item and hedging instrument will always offset in OCI (under IAS 39 the offset was in the profit and loss account) i.e. there is no net impact on OCI.

- a) We do not agree with accounting for fair value hedges through OCI as we do not see what useful benefit it will provide users of the accounts and adds unnecessary complexity to the OCI account as there are more items “washing through” it.

We acknowledge it would provide overview of hedge ineffectiveness for both cash flow and fair value hedges however this does not represent all economic hedges, only those that have been hedge accounted and hence gives spurious importance to a meaningless number

- b) One of the criticisms of IAS 39 has been the asset or liability subject to fair value has been carried at neither amortised cost or full fair value but somewhere in between. The exposure draft proposed a change to the presentation of fair value hedges by recording the hedge gain or loss, not as an adjustment to the carrying value of hedged item, but as a separate balance sheet line item presented with assets (or liabilities) to which the hedged item belongs.

We agree that this proposal removes the anomaly that IAS 39 presented, however we believe this should be presented in the same line item as the asset/liability on the face of the balance sheet with a separate disclosure in the relevant note to the accounts, and not as a separate line item on the face of the balance sheet. This not only reduces clutter on the face of the balance sheet but also does not represent the item as a separate asset or liability in its own right, which it isn't. Spurious assets or liabilities can have unfortunate public relations effects.

- c) Linked presentation is a way of showing how certain assets and liabilities are related but does not net them on the face of the balance sheet. The IASB considered linked presentation for the financial asset (or liability) and hedging instrument for fair value hedges but concluded that it wasn't appropriate because it did not differentiate between the types of risk covered by that relationship and those that are not.

Accounting for the time value of options for cash flow and fair value hedges (paragraphs 33, B67-69 and BC143-BC155)

Question 10

- 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 (e.g. 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 (i.e. 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?*

Under IAS 39 the time value of an option is accounted for at fair value through profit and loss. The exposure draft reduces profit and loss volatility by proposing that the time

value should be accounted for in OCI (with any ineffectiveness taken to profit and loss) and transferred to profit and loss over time (the timing based on whether the hedged item is 'transaction related' or 'period related').

- a) For transaction related hedged items the change in fair value of the option's time value is transferred from OCI to profit and loss on a matching basis e.g. when the hedged sales impacts the profit and loss account.

We agree with the above as the timing of the profit and loss impact for the hedging instrument matches that of the underlying hedged item.

- b) For period related hedged items the change in fair value of the option's time value is transferred from OCI to profit and loss, on what is effectively an amortised basis.

We agree with the above as it smoothes the profit and loss impact of the option's time value, however we would ask for clarification of what amortisation methods are deemed acceptable on "a rational basis".

- c) The 'aligned time value' of an option is the theoretical time value if the critical terms of the option and underlying perfectly match. Hence where the critical terms do not match, the exposure draft requires that the 'aligned time value' is calculated and only this portion is transferred from profit and loss based on the above option time value accounting methodology. We have assumed we do not need to consider aligned time value when the principal terms (i.e. notional, length of time, underlying) of the hedged item and hedging option exactly match. This should be made more explicit.

Whilst we understand what the IASB is trying to achieve in calculating 'aligned time value' we believe that very few treasurers will have the system capability or expertise to calculate this. Option valuation models do not present time value as a separate component and this will need to be calculated or outsourced at additional expense.

We would also point out that the profit and loss impact is unlikely to be material between accounting for aligned time value and actual time value. The time value component of an option's total value is usually quite small relative to the intrinsic value. The proposal requires a considerable amount of work to calculate and account for the aligned time value and should only be performed for expected material differences if at all.

Hedges of a group of items (paragraphs 34-39, B70-B82 and BC156-BC182)

Eligibility of a group of items as the hedged item (paragraphs 34, B70-B76, BC163, BC164 and BC168-BC173)

Question 11

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?

Paragraph 34 of the exposure draft extends the use of hedge accounting to net positions if:

- The items in the group are managed together on a group basis for risk management purposes; and

- For the purposes of cash flow hedging only, any offsetting cash flows in the group of hedged items, exposed to the hedged risk, affect profit or loss in the same period and only in that reporting period

For forecast transactions (cash flow hedges) practically it would appear that for an average manufacturing company the foreign exchange risk in forecast sales and purchases cannot be hedge accounted on a net basis because they will typically impact the profit and loss in different periods – even when the cash flows are expected to be in the same period. In any case, a forecast sales receivable cash flow impacts profit and loss when the sale is made, but a forecast purchase payable cashflow impacts profit and loss only when the manufactured item(s) is/are sold, which is dependent on the rate of stock turnover and divisibility of the product.

One purchased quantity may go to make many finished product that may be sold over many periods, but which periods may not easily be tracked.

We believe the exposure draft has not gone far enough and should allow hedge accounting for sales and purchases, even if they impact the profit and loss account in different reporting periods. The amount that has been deferred in OCI should be grossed up for the sales and purchases and then accounted for through profit and loss in the relevant accounting periods.

Presentation (paragraphs 37, 38, B79-B82 and BC174-BC177)

Question 12

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?

For an entity that applies hedge accounting on a net basis, any hedging instrument gains or losses recognised in profit or loss shall be presented in a separate line in the income statement.

For example:

	CU
Sales	X
Cost of sales	(X)
Hedging gain/(loss)	<u>X/(X)</u>
Gross profit	X

We strongly disagree with the proposal to disclose those items with offsetting risks in a separate line on the face of the income statement. This number is meaningless and misleading to users of the accounts as it represents only part of the profit and loss impact of hedges. For those items hedged on a gross basis the profit and loss impact from hedging is recorded as an adjustment to the underlying item in the profit and loss e.g. sales, cost of sales, interest expense etc.

Disclosures (paragraphs 40-52 and BC183-BC208)

Question 13

- 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?*

The exposure draft proposes quite significant changes to current disclosure requirements under IAS 39. Information must now be provided about:

- I. An entity's risk management strategy and how it is applied to manage risk;
- II. How the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
- III. The effect that hedge accounting has had on the entity's balance sheet, OCI and profit and loss.

We note that the additional disclosure requirements give more prominence to the effects of hedge accounting on the financial statements. However we would point out that:

- They may require commercially sensitive data to be disclosed including forward projections of sales of products and services and purchases of commodities and material, together with details of derivatives (partially) hedging these (including hedge amounts and hedged rates) which could be detrimental to a company. Commercial sensitivity is of particular concern to those corporates whose competitors are not listed companies or who do not report under IFRS.
- They will require significant effort to produce these disclosures. For example Point III above requires three different tables.
- We disagree with including more lines in the primary statements and the confusion this will cause and believe the notes to the accounts are the appropriate place to add further detail.

Accounting alternatives to hedge accounting (paragraphs BC208-BC246)

Accounting for a contract for a non-financial item that can be settled net in cash as a derivative (Appendix C and paragraphs BC209-BC218)

Question 14

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?

The IASB have included the above for companies with commodity contracts where the contract doesn't currently fall under the definition of derivative under IAS 39 (and is

instead being accounted for as a normal sale or purchase contract). Instead of them applying hedge accounting, which the IASB admit would be “administratively burdensome” the above has been included to allow these firms to fair value account for the commodity contract, and hence have offset in the profit and loss for any derivatives hedging these commodity contracts.

Accounting for credit risk using credit derivatives (paragraphs BC219-BC246)

Question 15

- 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?*

The above has been included for financial institutions in relation to the accounting of credit risk on debt instruments (financial assets).

We have not made any comment on this matter.

Effective date and transition (paragraphs 53-55 and BC247-BC254)

Question 16

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

Summary of proposal:

- Applies for annual periods beginning on or after 1 January 2013 with earlier application permitted.
- Disclosures need not be applied in comparative information for period before initial application because retrospective application is not applicable.
- Hedge accounting requirements can only be applied if all existing IFRS 9 requirements are adopted at the same time.

We agree that all components of IFRS 9 should be adopted together and believe the timing of adoption should be considered as part of the bigger picture of other new IFRS standards and amendments being issued.

IFRS 9 represents a significant change to IAS 39 in both principal and practical terms. Treasurers will need to assess and modify as required:

- risk management instruments, e.g. options may in the past have been explicitly disallowed because of the accounting treatment;

- the process of hedge accounting e.g. effectiveness testing;
- the mechanics of hedge accounting e.g. changes to fair value hedge accounting;
- valuation methodologies e.g. the ability to calculate aligned time value;
- systems implications for all of the above; and
- whether they regard hedge accounting as worth all the effort and artificiality or they would be better off explaining more clearly to their stakeholders and not hedge accounting at all or in part.

We agree that comparative disclosure information should not be required. Given that hedging relationships can only be designated prospectively, it would not be practical to apply IFRS 9 retrospectively.

Additional comments:

In addition to the specific questions raised by the IASB we provide comment on the following additional items:

Cash flow hedges (paragraph 29)

We do not agree with the mandatory basis adjustment for the recycling of items in OCI. We believe that users should be given a choice, as they currently have under IAS 39, whether to adjust the non-financial asset/liability or keep the amount in the cash flow hedge reserve until the time that the underlying cash flow impacts profit and loss.

A common example of this is that of forecast foreign denominated purchases hedged by a forward foreign exchange contract. Under current cash flow hedging the movement in the hedging instrument remains in OCI until the purchase physically occurs and then there is a choice whether to adjust the stock carrying value or keep the amount in OCI until the item of stock is sold (at which time it is taken to profit and loss). Mandatory basis adjustments can add extreme operational complexity to a company's accounting methodology as inventory systems cannot capture and track these adjustments.

Calculation of ineffectiveness using discounted spot rates (paragraph B43)

The application guidance states that in calculating hedge effectiveness, an entity shall consider the time value of money. Whilst in principal we agree with this we believe it should not be mandatory because in some circumstances it could give rise to unwarranted ineffectiveness. For example, when designating only the undiscounted spot component and not the forward interest points in a foreign exchange exposure.

The Association of Corporate Treasurers

The Association of Corporate Treasurers (ACT) is the leading professional body for international treasury providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. Membership is by examination. We define standards, promote best practice and support continuing professional development. We are the professional voice of corporate treasury, representing our members.

Our 4,000 members work widely in companies of all sizes through industry, commerce professional service firms.

For further information visit www.treasurers.org

Guidelines about our approach to policy and technical matters are available at <http://www.treasurers.org/technical/manifesto>.

<p>Contacts: Michelle Price, Technical Officer (020 7847 2578; mprice@treasurers.org) Martin O'Donovan, Assistant Director, Policy and Technical (020 7847 2577; modonovan@treasurers.org) John Grout, Policy and Technical Director (020 7847 2575; jgrout@treasurers.org)</p>	<p>The Association of Corporate Treasurers 51 Moorgate London EC2R 6BH, UK</p> <p>Telephone: 020 7847 2540 Fax: 020 7374 8744 Website: http://www.treasurers.org</p>
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