
International Accounting Standards Board (IASB)

30 Cannon Street
London, EC4M 6XH
United Kingdom

Subject: Response/comments to ED/2010/13 Hedge Accounting

Dear sir/madam,

We appreciate the opportunity to comment on the Exposure Draft: Hedge Accounting(ED/2010/13, hereafter referred to as “ED”). The comments are as follows:

1. Eliminate the Hedge Accounting principle

1.1 In light of the global financial crisis, IASB issued IFRS 9 aimed to better regulate the accounting of financial instruments. The main goal of IFRS 9 is to simplify the classification, which would reduce the need for judgment, the risk of manipulation and the complexity of recognition. With this intent, IASB reduced the categories of financial instruments from the original four to two and expanded the scope of the fair value measurement in IFRS 9. On the contrary, hedge accounting is very complicated and it significantly increased the difficulty of cooperate accounting process. It provides more room for judgment by management which is against the basic intent of IFRS 9.

1.2 Hedging accounting falls into a special genre of financial instruments accounting with a focus on risk management. However, the focus of IFRS 9 is not on risk management as evidenced by the prohibition of transfer of fair value changes from other comprehensive income to profit. Therefore, the goal of hedge accounting is inconsistent with that of IFRS 9. Hedge accounting enables management to attach hedging instruments to the hedged items solely based on management's intent, which is not reasonable.

Based on the above reasons, we recommend to eliminate the hedge accounting principle.

2. Suggestions on the measurement and disclosure of hedging activities

To eliminate hedge accounting is not to prohibit hedging activities on risk exposure. We recommend the following measurement and disclosure for hedging activities:

2.1 IASB has expanded the scope of fair value measurement in IFRS 9. Therefore, we recommend hedging instruments to be measured with a comprehensive fair value method which would therefore match gains and losses of the hedging instruments and that of hedged items in the same period and thus would reflect the actual offsetting effect of hedging activity.

2.2 We also recommend expanding related footnote disclosure. The expanded disclosure would include the effectiveness of the hedging activities as well as risk factors with potential impacts on future cash flow to the appropriate extent. This would enable the reader of the financial statements to better understand the financial condition of the company.

These suggestions are for your reference and we hope you will find them helpful.

Your sincerely,

Yang Zheng

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