

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 10th March 2011

Dear Sir/Madam

ED 2010/13 – Hedge Accounting

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the exposure draft on hedge accounting. Please find our comments to the questions in the order suggested by you in the appendix to this letter.

We do support the effort to develop a new regulation of the accounting for hedging activities. However, in summary, we do not support the Board's current proposal to changes to the hedge accounting requirements in IAS 39 since we do not believe the changes would lead to more decision useful information for primary users of the financial statements.

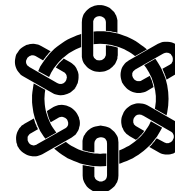
The main reason as to why we believe this is the case is the lack of principles and clarity with regards to what risk management activities constitute. Hedge accounting represents an exception from the general requirements in IAS 39/IFRS 9. We believe that lack of principles regarding the basis and purpose of hedge accounting combined with a large amount of flexibility in the proposal could impair the decision usefulness in the reporting of financial instruments in the financial statements. We acknowledge that it could be difficult to make a precise and stringent definition of risk management activities and in which situations hedge accounting should be applied or be applicable. However when the Board decides to base the standard upon the entity reflecting its risk management activities through hedge accounting, then it is absolutely necessary to be able to define what is and what is not risk management activities. We question whether the Board has fully investigated the possibilities inherent in the fair value option in order to avoid excessive use of unclear hedge accounting possibilities.

If the Board is not able to make a clear and precise definition of both hedge accounting and which risk management activities should be subject to hedge accounting, we believe the exposure draft would only represent a replacement of one set of arbitrary rules with another set of arbitrary, but more flexible, rules.

As the Board proposes to link hedge accounting to a set of non-defined activities, we also would like the Board to clarify why hedge accounting should only be allowed for risks that affect profit and loss. For instance, several entities might want to hedge the currency exposure related to equity instruments that are at fair value through other comprehensive income. Is there any reason for excluding such economic hedges from being qualifying hedges under IFRS 9?

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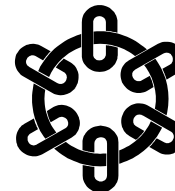
We strongly support the proposed change to the scope of IAS 32 and IAS 39 in relation to own use contracts. It is an important issue to a number of Norwegian energy and utility companies. However we do not support the proposed limitation to the change requiring that the entire business is managed on a fair value basis. Most often the relevant activities are separate parts of, and conducted in relation to defined and clearly segregated portfolios within the business and not the entire entity.

Our comments to the detailed questions are laid out in the appendix to this letter. The questions are answered under the premise that the Board decide to proceed with the proposed changes to IAS 39. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal

Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix – NRS’ responses to the questions asked in the ED

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?

We believe it is difficult to actually see that the objective currently presented in the exposure draft adds any value to the standard or the accounting for hedge accounting as such. We argue that IASB should clarify and define what hedging comprises and believe that this has to be in place before an objective would represent a useful addition to the standard. Also, an objective of representing the effects of risk managing activities through rules of exception is not meaningful unless the standard clearly describes which risk management activities should be candidates for the hedge accounting rules. If the Board is not able to clarify and define this in an objective manner we believe the risk of management abuse is significant.

In order for an objective to give meaningful direction it is important to be able to distinguish between economic hedging or risk management activities and other activities like portfolio management or trading that should or should not be labelled risk management activities.

We also believe that the Board, given that it does not define risk management activities, should clarify why hedge accounting should only be allowed for risks that affect profit and loss.

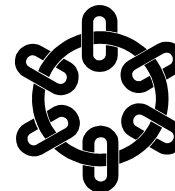
Question 2

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?

We believe that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit and loss should be eligible hedging instruments since they can be effective in offsetting changes in fair value on other items. Several entities use such instruments in order to meet the risk management objectives and given that the hedging requirements are met we believe such instruments should qualify as hedging instruments. However, we see no conceptual reason to exclude non financial assets and liabilities measured at fair value through profit and loss as possible hedging instruments. Hence we suggest that the Board includes these assets and liabilities as well in the group of eligible hedging instruments.

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?



The proposal removes an obstacle for hedge accounting in IAS 39. We concur with this proposal since it eliminates a restriction in the current regulation and, given that the hedging requirements are met, we see no reason to exclude synthetic positions as being able to qualify as hedging objects. However we notice that this proposed change opens a whole new set of questions to the extent that the derivative designated as a hedged item is or is not in itself a hedging instrument or a hedging instrument in a different type of hedging relationship.

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 (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?

We strongly support this proposed change as it would remove a restriction or limitation in current regulation related to non-financial hedging objects which is not warranted in situations where a risk component is separately identifiable and reliably measurable.

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?*

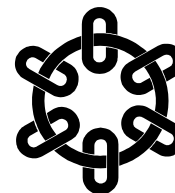
- a) We agree since it would make it easier to construct effective hedging relationships and reduce expected ineffectiveness. It also reflects the way exposures are handled within a large number of entities.
- b) We do not agree since we believe this would represent a too detailed approach for standard setting.

We do not agree that the requirement stated in B24, that a component of a financial asset or a financial liability that is designated as the hedged item must be less than or equal to the total cash flow of the asset or liability, is applicable to components of future cash flows. It is important that for the hedging of future cash flows it must be possible to identify a component of future sales that, fulfilling the requirements of future effectiveness, might be more or less than the total future cash flow. This will be the case of hedging a reference component of a future power price where the actual future power price might come out above or below the more active traded reference component identified as the hedged component/item.

Question 6

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?

We believe hedge effectiveness is an important ingredient in any hedging relationship. As such we support the inclusion of hedge effectiveness as a qualifying criterion for hedge accounting. We support



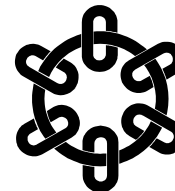
the removal of the 80-125 bright line test and the replacement with the proposed requirement of expectation of unbiased result and achievement of other than accidental offsetting. However we like the Board to clarify that the requirement to minimise expected hedge ineffectiveness refer to the unbiased result requirement and that it is not a requirement to use the best possible hedging instrument or hedging instruments.

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?*
- a) We would like the Board to clarify the concept of required rebalancing. We do not support a standard that requires an entity to rebalance a hedging relationship. A forced rebalancing would mean imposing an action that might not otherwise be a part of the risk management activity of the entity. Rebalancing requires either a new designation of a hedged item or a new trade or designation of a hedging instrument. We do not agree that an accounting standard has the authority to require a transaction. Also we do see a number of entities carrying out hedges that for administrative or transaction cost reasons are not necessarily balanced at all times. To require a continually rebalancing of the hedging relationship would make the accounting directing the risk management activities instead of reflecting it.
 - b) Although we can see the conceptual merit for such an approach we believe it could be difficult to apply it in practice. Hence we would like the Board to clarify what “proactive rebalancing” means.

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?*
- a) We do not agree since we believe the lack of principles and clarity with regards to hedge accounting does not warrant such a restriction.
 - b) We do not agree. It is voluntary to prospectively designate a hedging relationship. It should be voluntary to prospectively de-designate a hedging relationship.

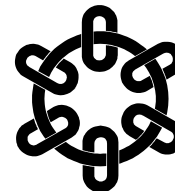


Question 9

- 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?*
- a) We do not agree. Before the Board has come up with a clear description of the use of other comprehensive income, we see no conceptual merit in cluttering other comprehensive income with debits and credits from fair value hedge accounting. We support the decision made by the board to keep the fair value accounting model and recommend not making any changes to the presentation of fair value hedges.
- b) We do not agree with this proposal. We recommend that the effect of the hedge accounting should be disclosed in notes, but not as a separate line item in the statement of financial position. We object to the proposal because we fear it will not be informative if after a time an entity will have a separate line next to a large number of asset or liabilities in the statement of financial position. We do not support the inclusion of a possibly large number of line items that do not in it self represent assets, liabilities or equity.
- c) We agree that the case for linked presentation has not been sufficiently laid out. If the Board is to propose linked presentation, we believe it should be as part of a larger project on linked presentation, and not as a limited part of a hedging standard.

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 (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?*
- a) We are not convinced by the arguments that parts of a derivative that is not designated in a hedging relationship should be treated differently from other derivatives not designated in a



hedging relationship. We are not able to see the benefits of introducing the two new concepts of transaction related hedged items and period related hedged items with two different exception based separate regulations for the treatment of time value for any other than auditors who will be granted a full employment act. We see no positive cost benefit by introducing separate recognition rules for time value of options designated as hedging instruments except for the time value. We do not see how it reduces complexity and we do not see how different rule based solutions may reflect all possible risk management activities.

b) We disagree.

c) We disagree.

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?

We believe that a group of items that are managed together on a group basis for risk management purposes, should qualify as the hedged item, hence we are supportive of the changes proposed by the Board. However, the current proposal seems somewhat arbitrary and we believe the Board should develop somewhat clearer principles or remove some of the restrictions. For instance, paragraph 34 (c) could give rise to arbitrary situations and we question whether this paragraph is necessary.

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 (eg 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?

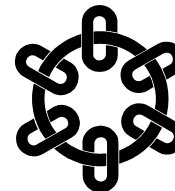
We do not agree. We believe that it would be more informative to adjust all the items within the offsetting risk position such that the effect of the hedge is presented on each line affected by the hedge. We do not believe that presentation of hedging instruments gains or losses on a separate line in profit or loss will have any informative value as soon as the entity conduct several hedges of several different net positions.

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?*

a) We agree.

b) We do currently not have any proposals or suggestions with regards to additions to the proposed requirements.



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?

We strongly agree with the proposal. For a number of electricity and other commodity entities this will bring accounting in line with how several of these entities are managing their contracts.

We have not seen the proposed amended wording to the standard. However we are concerned by the possibly limiting scope indicated in appendix C and BC218 that the entities (should) manage their entire business on a fair value basis. If this is to be reflected in the amended text of the standard the change will be of little value to a large number of entities that carries out a large number of businesses within the entity. Most potential entities have some parts of their business that are not managed on a fair value basis. What we see is that entities, for which this change will be very relevant, often manage their businesses on a portfolio basis. Thus we urge the Board to use the portfolio basis and not the entire business when making the amendments to the standard.

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?*

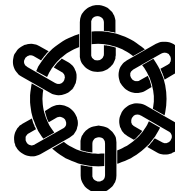
a) We do not agree that the three alternative accounting treatments to account for hedges of credit risk using credit derivatives would add unnecessary complexity. The basis for this is the problem to achieve hedge accounting in such circumstances. Given that entities use such instruments to hedge credit risk, we believe IASB should develop an approach which would give decision useful information, in other words, an approach which would better portray these risk management activities than current accounting.

b) We do not have any clear views in this respect.

Question 16

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

We agree that the new requirements should be applied prospectively. Based on early feedback from producers we feel that there is an eagerness by some entities to be able to early adopt the new hedging regulations. For such entities early adoption of the hedging requirements in parallel with continued use of IAS 39, or as part of early adoption of IFRS 9 as an isolated standard, are seen as very attractive.



In relation to the required application of the new requirements we question whether it is feasible to have an effective date as early as of 1. January 2013 as proposed. As stated in our reply to the Board on dates for implementation of the converged standards we recommend a required application as of 1. January 2015.