

March 9, 2011

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

***Exposure Draft ED/2010/13 Hedge Accounting***

Credit Suisse Group ("CSG") welcomes the opportunity to share our views on the International Accounting Standards Board's ("the Board") request for views with respect to ED/2010/13 Hedging Accounting ("ED"). CSG's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). However, a number of our subsidiaries are required to apply International Financial Reporting Standards ("IFRS") to their stand-alone financial statements.

We are supportive of the principles-based approach and the general direction of the ED but we have some concerns with regards to application and request the Board to consider clarify some of the items in the ED. We are also concerned that the hedging model as proposed in the ED differs significantly from the Financial Accounting Standard Board's ("FASB") proposed model. We strongly support the IASB and FASB's convergence efforts and are concerned that the changes being proposed on this topic would lead to less convergence than exists today. We describe in more detail in the attached appendix our specific concerns with the ED.

We would welcome the opportunity to further discuss our comments in this letter. If you have any questions or would like any additional information on the comments we have provided herein, please do not hesitate to contact Todd Runyan in Zurich at +41 44 334 8063.

Sincerely,



Rudolf Bless  
Managing Director  
Deputy Chief Financial Officer

Allison Bunton  
Vice President  
Accounting Policy and Assurance Group

## Appendix

### 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?**

In principle we agree with the objective that hedge accounting should align with an entity's risk management activities. However, we have some concerns that hedge accounting under the ED continues to be viewed as a one to one relationship between a hedging instrument and a hedge item whereas we typically manage risk at a portfolio level. We understand that the Board plans to issue a macro hedging exposure draft later in the year which may alleviate our concerns.

In addition, we do not agree that hedge accounting should be restricted only to those risks that will impact the profit and loss statement. Our risk management activities may include exposures that are revalued through OCI and therefore we believe should be eligible for hedge accounting.

### 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?**

Yes, however we believe the Board needs to provide greater clarity of how this would work in practice. With regards to the example in B9, it is not clear to us whether this is to be viewed as one hedge accounting relationship or two and therefore we believe additional guidance is needed to ensure consistent treatment.

We believe this question raises a related issue with regards to where a derivative is both the hedge instrument and the hedge item. We assume that IAS 39.F 2.5 *All in one Cash flow hedges* will still be allowable under the ED and we request that the board clarify this in their final standard.

### 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?**

Yes we support the proposal to allow a broader range of risk components to be considered hedged items. We believe, however, that credit risk should also be considered for hedge accounting. Please see Question 15 for our response to the alternative solutions for hedging credit risk.

### 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?**

The basis for conclusion states that the Board is continuing to discuss the proposal for hedge accounting for open portfolios, however B21 refers to applying the layered approach to a defined, but open, population. It was our understanding that this ED would apply to closed populations and as we noted in question 1 we are concerned regarding the lack of clarity on approach that will be applied for macro hedging.

#### **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 are pleased to see the removal of the 80-125% test in the ED and also agree that the hedge effectiveness requirements should only be a prospective assessment. However, we have concerns with the requirement in the ED for ongoing effectiveness monitoring and suggest that an effectiveness evaluation after inception only occur if facts and circumstances have significantly changed suggesting that the hedging relationship may no longer be reasonably effective.

#### **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?**

This proposal creates a divergence with the proposed US GAAP hedging model. Where a hedge relationship might terminate under US GAAP, it would be required to be mandatorily rebalanced under this ED. Many US GAAP reporters, like ourselves, have subsidiaries that prepare statutory financial statements under IFRS. Our hedging accounting relationships are structured and documented to ensure they meet the US GAAP requirements at a consolidated level and the IFRS requirements at the subsidiary level where applicable. The requirement to rebalance the hedge relationship as proposed in the ED will create an additional burden in order to maintain hedge accounting in our

subsidiaries IFRS financial statements and therefore we encourage the Board to work towards convergence with the FASB on this.

#### 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?**

We agree that when the hedge accounting criteria as outlined in the ED are no longer met that hedge accounting should be discontinued. However, we disagree with the prohibition as outlined in the ED for an entity to de-designate a hedge accounting relationship that continues to meet the qualify criteria and would recommend that the Board permit de-designation.

#### 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) No. We do not believe the approach in the ED provides additional benefits and in fact creates additional complexity that would necessitate significant systems changes in order to affect this proposal.
- (b) No. We believe this approach would confuse the reader of the financial statements rather than provide additional transparency and result in an overly complex statement of financial position.
- (c) Yes. We believe linked presentation is not a common concept in financial reporting and will create more complexity in the financial statements.

#### 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?

We support the proposal to defer changes in time value from hedging with an option into OCI.

#### 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 generally agree with the eligibility criteria but need to understand the macro hedging requirements before we can fully conclude on this issue.

#### 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?

We prefer that the Board allow entities to hedge credit risk through hedge accounting rather than through one of the three alternative accounting treatments. We understand the Board's concern around the difficulty to separately identify and thus measure the portion of the spread associated with credit. However, given that credit risk is actively managed within CSG it is therefore a risk management strategy and we feel should be eligible for hedge accounting. We would propose that the hedged risk in a credit risk hedge could be measured as the entire spread over the benchmark interest rate.

#### 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 with the proposal that transition should be prospective only. However we believe that the proposed effective date of 1 January 2013, is too soon. We believe that the adoption of a cash flow hedging methodology for fair value hedging will require systems adjustments that could not be made within this timeline. Taking into account the scope and complexity of the changes that are required for other projects such as Leases and the other installments of Accounting for Financial Instruments, we believe a more realistic effective date is 2016. As we noted in our letter to you with regards to our comments on Effective Dates and Transition Methods dated 4 February 2011, that this would allow at least three full years to implement the new requirements.

#### **Other points**

We believe that IAS 39.F4.1 *Hedging on an after tax basis* should also be maintained in the final standard. We do not see any elements of the ED which would cause issue with continuing to make use of this guidance but request that the Board clarify this in their final standard.