

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

14 March 2011

Dear Sirs

Hedge accounting

ACCA (Association of Chartered Certified Accountants) is pleased to have this opportunity to comment on the above exposure draft which was considered by ACCA's Financial Reporting Committee. I am writing to give you their views.

Overall remarks

We generally support this ED as a replacement for the hedge accounting aspects of IAS39. However IFRS9 and related standards will need to be considered as a whole when it is complete to ensure that it is coherent and not overlapping with duplicated requirements (particularly in disclosures). To that extent we reserve our final position on it.

In particular we appreciate the greater ability of companies to align hedge accounting with their risk management strategy and the reductions in complex rules that in parts it represents.

However in places the proposals are very complex and hard to understand. IASB needs to accept that there maybe aspects of the activities of banks which are difficult to regulate by accounting standards that are meant to be applied by the generality of companies. Bank regulators may need to set out further requirements in some of these specific instances in addition to what is contained in IFRS.

Allowing alignment of hedge accounting and risk management

We support most of the proposals in this ED and welcome its move to allow companies to align as much as possible their hedge accounting with the risk management strategy of the reporting entity. By and large this means removing many of the restrictions which currently exist on the items that can be hedge accounted. It also means ensuring that there are clear disclosures of the risk management strategies for relevant items and the extent to which hedge accounting will reflect those.

So in that context we support the

- removal of the restriction of hedging items to derivatives (Q2)
- allowance of aggregation of exposures (Q3 and Q11)
- ability to designate risk components that can be reliably and separably measured (Q4)
- ability to designate a layer component of a contract (Q5)
- treatment of a contract for a non-financial item that can be settled net in cash as a derivative (Q14)

However we are not sure

- why the objective of hedge accounting should be limited to those exposures which have an effect on profit or loss, why not items which could affect other comprehensive income (Q1)?
- why net written options should be excluded from eligible items (Q1)?

Not making hedge accounting mandatory

Many companies applying IFRS do not currently apply hedge accounting on the grounds of its complexity, even though they may have risk management strategies for financial exposures that involve derivatives for example. They should be free to continue to do so. It would be difficult to write a way of compulsorily identifying matching risk exposures in a principle-based standard while certain items do not qualify for hedge accounting. As a logical extension of that freedom even having designated a hedge relationship, an entity should be free to reverse that designation and cease hedge accounting (as in current IAS39). (Q8)

However we think there needs to be a disclosure requirement to explain in an overall way the risk management approach and its relationship to the accounting and in particular the extent to which there are “economic” hedges which will not be accounted for as such.

Reducing the complexities

There are particular aspects of these proposals which are complex and there should be an option not to apply them

- The rebalancing requirement (Q7)
- Time value of options (Q10)

We have noted among our overall comments above the issue of complexity in parts of this ED.

We support the more general and less specified approach to hedge ineffectiveness testing with the removal of the 80-125% test and of the retrospective testing (Q6).

Some of the presentation of hedge accounting may produce rather extensive and burdensome accounting which is not very informative to users (Q9). We do not therefore support

- Showing separately matching gains and losses on fair value hedges in OCI and would prefer nil to be shown, with any ineffectiveness shown in P&L
- A separate line items in the balance sheet for the deferred gains and losses on hedges. We would prefer there was a single item with an explanation of its main origins in the notes to the financial statements.

We are concerned with the implicit volume of disclosures that are going to be required and whether they will be useful to users (Q13). We are sceptical whether users are interested in the accounting classification of fair value and cash flow hedges for example. Field testing seems appropriate here to help with this. The information seems comprehensive but an approach which concentrates more on

- the financial risks that exist
- the strategies to dealing with them
- the extent of mitigation of those risks
- extent to which the accounting will reflect that mitigation

If there are any matters arising from the above that require further clarification, please contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Martin', with a stylized, cursive flourish at the end.

Richard Martin
Head of financial reporting