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Reference: IASB Exposure Draft “ED/2010/13: Hedge Accounting”

Dear Sir David,

We thank you for inviting us to comment on your exposure draft *Hedge Accounting*. We welcome the proposed modifications on micro hedge accounting in response to specific issues and we consider the new accounting rules as a significant improvement to better reflect risk management activities in the financial statement. In particular we appreciate a more principal-based regulation and an increased reliance on risk management methods and processes. We are of the opinion that the rules on micro hedge accounting as proposed are appropriate to account for hedge relationships based on individual items. Especially the proposed modifications concerning effectiveness testing and the opportunity to rely on qualitative assessments eliminate a considerable burden to closely align accounting with risk management activities.

However we would appreciate an additional clarification in the final standard concerning the possibility to designate a portion of a derivative (e.g. the fixed leg of an Interest Rate Swap) in a hedge relationship. Under IAS 39 it is specified (IAS 39 F.1.12) that a derivative can be designated for more than one type of risk in two different hedge relationships. In contrast the ED does not give a clear guidance on the possibility to decompose the hedging derivative and to designate its components in different hedge relationships even if the components are clearly identifiable.

Even though we consider the proposed modifications on micro hedging a considerable improvement we are aware that the current Exposure Draft covers only one part of hedge accounting. Beside the modifications on micro hedge accounting considerable improvements on

macro hedge accounting are needed to enable preparers of financial statements to give a complete and adequate picture of their risk management activities. This includes

- a dynamic hedge relationship (with a daily changing position of hedging derivatives and hedged items)
- a bottom layer approach to be applied on portfolios including prepayment options and
- a measurement method which allows a synchronous amortisation of hedging instruments and hedged items.

We would have appreciated a complete regulation on hedge accounting including macro hedge accounting to be issued together.

Given the weaknesses of the current macro hedge accounting requirements we are concerned about a timely issuing of a proposal of appropriate new requirements.

Our detailed responses to the questions in the ED are set out in the following:

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 agree to define an objective of hedge accounting as proposed in the ED. We share the opinion that hedge accounting should best reflect risk management activities that uses financial instruments to manage risk exposures (e.g. interest rate risk).

Consequently, hedge accounting should not affect profit or loss in a way that an effective risk management strategy increases volatility in comparison to an unhedged exposure. This should also be the guideline when defining the new requirements for macro hedge accounting. Currently the requirements on macro hedge accounting can lead to situations where a hedged portfolio produces higher volatility of P&L than an unhedged portfolio which is counterintuitive.

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?

Not applicable in the context of our business.

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?

To designate a combination of a derivative and another exposure as hedged item can in certain cases be advantageous. We welcome additional opportunities to designate a hedge relationship which is economically effective.

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 welcome the possibility to designate specific risk components of the change in fair value or cash flows of a financial instrument. However, we do not agree with the constraint defined in IFRS9.B24 that the designated component must be less than or equal to the total cash flows of the asset or liability. As a promotional bank our refinancing is generally below Libor whereas it is possible only to hedge the position against Libor. In our opinion it would be correct to define the Libor as the hedged risk which is unfortunately not allowed.

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?

We agree with a layer of the nominal amount of an item to be designated in a hedge relationship. However, we do not agree with the restriction concerning prepayment options. Depending on the hedging method it can be reasonable to designate a layer component of the nominal amount of the hedged item.

At least in the context of macro hedging we strongly support a bottom layer approach as outlined in the agenda paper 10D of the IASB staff (Macro hedge accounting – a bottom layer approach). Otherwise there will remain a considerable gap between accounting and risk management methodologies.

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 consider the relaxation of the qualification criteria as an important progress to achieve an accounting which is more consistent with the risk management practice. In particular we appreciate the elimination of the 80 -125% 'bright line' and the possibility to rely on a qualitative effectiveness assessments.

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 rebalancing might be reasonable in cases of non-linear and optional risks. Given the practice of hedging interest rate risk in our entity rebalancing is not applicable.

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?

As we designate only economic hedging relationships we agree with the requirement to discontinue the hedge relationship only when it ceases to meet the qualification criteria.

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?

We fully agree with the presentation requirements of the ED. In our opinion the presentation of changes in fair value in OCI combined with the hedge adjustment to be presented separately from the hedged item increases the transparency of the financial statement. The important point is that neither the net profit or loss nor the equity is affected by the effective part of the hedging relationship.

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 agree with the proposed requirements.

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 fully agree with the criteria for the eligibility of groups of items as a hedged item. In particular we welcome that the similar asset criterion has been eliminated.

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 agree with the requirement to present the hedge adjustment of a group of financial instruments in a separate line item.

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?

We agree with the proposed disclosure 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?

Not applicable in the context of our business

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?

Alternatively to the application of hedge accounting the fair value option should be allowed in cases when the change in fair value attributable to the hedged risk is not clearly identifiable. We would appreciate if alternative 3 will be further developed and integrated in IFRS 9. It allows to the preparer the most flexible application and it best fits the risk management methods.

However, any solution to account for hedges of credit risk should be harmonised with the impairment requirements which also cover at least parts of the credit risk.

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 a prospective application of the hedge accounting requirements. Concerning the effective date we consider the 1 January 2013 as not feasible. (see our Comment letter on Effective Dates and Transition Methods)

We remain of course available should you wish further clarification on our opinion.

Best regards,

A handwritten signature in blue ink, appearing to be 'L. A.' or similar, written in a cursive style.A handwritten signature in blue ink, appearing to be 'Andreas' or similar, written in a cursive style.