

ANSWER ED/2010/13

Diciembre 2010

CECA's answer to IASB Exposure Draft on **Hedge Accounting**

CECA, the Spanish Confederation of Savings Banks (Cajas de Ahorros) was created in 1928 with the aim to join its members' forces and represent Spanish Savings Banks Sector. CECA is formed of the 45 Spanish Savings Banks, which are one of the most important players in Spanish financial system: their total assets reached €1.1 billions, 24.050 branches in Spain and 124.139 employees in 2007.

Spanish Cajas are credit institutions that act and are organized as private enterprises. They have the legal status of private institutions. Spanish Cajas are independent institutions which compete directly and individually with each other and with other financial institutions and they are free to decide on their territorial expansion.

As credit institutions with foundational origins, Cajas pursue the following main objectives: (1) universal provision of financial services; (2) economic efficiency; (3) promotion and competition and avoidance of monopolistic practices; (4) contribution to welfare and redistribution; and (5) promotion of regional and community development. From their inception, Cajas are required to channel the surpluses that are not allocated to reserves toward projects that fall under their "Obra Social" scheme (community investments projects).

Spanish Cajas are subjects to the same legislation that applies to other types of credit institutions (commercial and cooperative banks) in terms of transparency, solvency and consolidation.



ANSWER ON IASB ED/2010/13 HEDGE ACCOUNTING

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 with the proposed objective to reflect the extent and effects of an entity's risk management activities in the financial statements. The referred objective is consistent with the business model in the classification of financial instruments.

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 agree with the extension of the range of eligible hedging instruments to the extent it achieves a better alignment of hedge accounting and risk management. However, for cash-flow hedges we would recommend to include as eligible hedging instruments non-derivative financial assets and liabilities measured at fair value through other comprehensive income.

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?

We agree that a combination of a derivative and another exposure may be designated as a hedged item consistently with current risk management strategies which frequently use synthetic exposures as hedged items.

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 agree with the decision to permit the designation of cash-flows or fair values attributable to a specific risk or risks as hedged items.



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?**

We agree with the option to designate a layer of the nominal amount of an item as the hedged item.

- (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 the exclusion as eligible hedged items of layer components of contracts that include a prepayment option if the option's fair value is affected by changes in the hedged risk.

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 that the replacement of the 80-125 per cent effectiveness threshold and the introduction of an objective-based assessment will achieve flexibility and will simplify the implementation of hedge accounting.

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?**

The new proposal introduces the possibility to adjust a continuing hedge relationship when it no longer meets the objective of the hedge effectiveness assessment but the risk management objective for that hedge relationship remains the same. We believe this will provide a more flexible accounting approach which will better reflect risk management as a dynamic activity.

- (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?

We agree with the proposal to rebalance proactively the hedge relationship.

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?**

Answer to questions (a) and (b)

We agree that an entity should be permitted to discontinue hedge accounting only when it no longer meets the risk management objective as it becomes ineffective or the business model changes affecting the entity's risk management.

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?**

We agree with the proposed change of the fair value accounting mechanics as this will result in a single method for hedge accounting reducing its complexity.

- (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?**

For fair value hedges, we agree with the proposed presentation of the gain or loss on the hedged item attributable to the hedged risk.

- (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?**



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?

Answer to questions (a), (b) and (c)

We agree with the proposal as it provides a solution to an important practical issue, the treatment of ineffectiveness due to time value component in options when an entity designates as the hedging instrument only the change in the intrinsic value of the option. However, in order to limit the complexity that the new proposal will introduce, we think it should be desirable that the Board selects a single approach for the reclassification from other comprehensive income to profit or loss of the time value component accumulated in this rubric.

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 agree that the proposed criteria for the eligibility of individual items as a hedged item should be similar in concept to those for groups of items.

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?



In general, we agree with the proposal in relation to the presentation in profit or loss of the effects of hedge accounting for groups of items, however we believe that in particular cases such of groups of assets and liabilities in a fair value hedge, gains and losses should be recognised aggregated in a single line item in the statement of financial position (providing details in the notes) instead of on a gross basis adjacent to the assets and liabilities themselves.

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?**

Answer to question (a) and (b)

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?

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?**

Question 16

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

We support prospective application of the proposals as it would be very difficult to apply the provisions retrospectively.