



March 9th 2011

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Re: Exposure Draft: Hedge Accounting

Dear Sir David,

We welcome the opportunity to comment on the Exposure Draft on Hedge Accounting (ED).

Societe Generale's main comments are summarised in this cover-letter while answers to the detailed questions of the invitation to comment are provided in the appendix.

We welcome the comprehensive review of the hedge accounting rules currently available in IAS 39 and we hope that the model proposed by the ED will withdraw most of the drawbacks existing in IAS 39 which raise recurring difficulties for preparers of financial statements and prevent them from appropriately reflecting in their financial statements the economic effects of their hedging activities.

Unfortunately, the current proposals are only a step towards the development of a comprehensive accounting model for hedges of portfolios; either closed or opened (macro-hedge). Until we have a more precise view on the Board's direction regarding macro-hedging, we are not in a position to build a definitive opinion on the proposals of this ED related to portfolio hedge and we are looking forward to the opportunity of making a final assessment of the comprehensive model when it will include in its scope all types of hedging strategies.

Macro-hedging is a significant risk management activity in our Group as for many financial services entities. We are therefore concerned that some restrictive proposals in the ED could constraint the further developments on the macro-hedging framework and then preclude financial entities to apply an appropriate macro-hedge accounting model that fairly reflects their risk management activities.

We support the general objective of the ED when it proposes that hedge accounting should represent in the financial statements the effect of the entity's risk management activities. Building a principle-based standard for hedge accounting focusing on this objective would allow a more consistent and useful representation in the primary financial statements of the extent and impact of hedging activities.

Comments on the ED: Hedge Accounting

We also note and welcome some positive improvements proposed in the ED such as:

- the removal of the current highly effective quantitative threshold (80-125%) and its replacement by a more qualitative assessment of hedge effectiveness;
- the risk component approach;
- the eligibility of a group of items as the hedged item;
- the symmetrical revaluation of both the hedged item and the hedging instrument in a fair value hedge (instead of the initial Board's proposal to fully align accounting for fair value hedge with the accounting for cash flow hedge).

However, we have strong concerns on some proposals that will need to be improved or fully re-considered. We would like to emphasize more particularly the following issues and restrictions:

- the prohibition of designating a Libor index as the hedged component on sub-Libor instruments, including the related issue of the eligibility of core-deposits as hedged items which shall be solved during the development of the macro-hedging framework;
- the restriction to designate as hedged items under the bottom layer approach instruments with prepayment options where the option's value is affected by changes in the hedged risk;
- the prohibition in designating as hedged item the inflation component of financial instruments unless it is contractually specified;
- the remaining rule-based provisions on the designation of credit derivatives as hedging instruments despite their use by many financial institutions for credit risk management purposes (as clearly acknowledged in BC219).

We also disagree that only risks affecting profit or loss should be eligible for hedge accounting. We see no conceptual basis for such a restriction which does not allow a fair representation of hedging activities in the financial statements. When the entity hedges equity investments measured at fair value through OCI, it protects its investments against price fluctuations in a sound way which shall be reflected in an accurate manner in the OCI where revaluation differences of both the hedged equity investments and the hedging derivatives should be then offset (with any residual inefficiency recognised in P&L).

Additionally, we think that clarifications are needed to fully assess the consequences of the following concepts or issues:

- the concept of "unbiased" result produced by a hedge relationship;
- the concept of rebalancing (versus de-designation/re-designation);
- the treatment of derivatives designated as hedged items (for instance when they are part of a hedged combination with another exposure);

If you have any queries regarding our comments, please do not hesitate to contact me or Pierre-Henri Damotte, Head of Group Accounting Policies Department of Societe Generale.

Sincerely,

Marie DOUCET
Group Chief Accountant

Objective of 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 general objective of the ED when it proposes that hedge accounting should represent in the financial statements the effect of the entity's risk management activities. Building a principle-based standard for hedge accounting focusing on this objective would allow a more consistent and useful representation in the primary financial statements of the extent and impact of hedging activities. We also welcome that hedge accounting should be not mandatory but based on a voluntary designation.

As such, we hope that the proposed approach will withdraw most of the drawbacks currently existing in IAS 39 which raise recurring difficulties for preparers of financial statements and prevent them from appropriately reflecting in their financial statements the economic effects of hedging transactions. Some financial instruments used for risk management purpose are currently creating volatility in profit or loss whereas they could constitute an efficient economic hedge of a specific risk exposure. Disclosing in the notes the impact on the P&L of some economic hedges not eligible to hedge accounting is not a satisfactory alternative.

Nevertheless, we do not think that the proposals will meet the general objective as far as some significant restrictions are still maintained in the ED mainly related to:

- The exclusion of instruments with prepayment options from the bottom layer approach,
- The sub-Libor issue,
- The prohibition of hedging credit risk.

We also disagree that only risks affecting profit or loss should be eligible for hedge accounting. We see no conceptual basis for such a restriction which does not allow a fair representation of hedging activities. When the entity hedges equity investments measured at fair value through OCI, it protects its investments against price fluctuations in a sound way which shall be reflected in an accurate manner in the OCI where revaluation differences of both the hedged equity investments and the hedging derivatives should be then offset (with any residual inefficiency recognised in P&L). Moreover, we note that this restriction is merely due to interaction between the phase I and the phase III of IFRS 9. Such negative consequence on hedge accounting could be solved if the prohibition of recycling between OCI and profit & loss for equity instruments under IFRS 9 was removed. We then ask the Board whether it could reconsider this prohibition in the light of the hedge accounting general objective to fairly represent in the financial statements the effect of the entity's risk management activities.

Instruments that qualify for designation as hedging 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 welcome the extension of the scope of eligible hedging instruments to include non-derivative financial instruments as far as it enables a better consistency between hedge accounting and the entity's risk management strategy.

Representing in the financial statements the effect of the entity's risk management activities shall remain the objective of hedge accounting in order to provide the most useful information to users. The nature of hedging instruments shall not overlap the achievement of this objective. Therefore, we see no conceptual basis to exclude financial instruments that are not at fair value though profit and loss as eligible hedging instruments.

Derivatives that qualify for designation as hedged items

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?*

Entities may actually hedge risk exposures arising from both individual exposures and aggregated exposure without taking into consideration the fact that hedged risks stem from derivatives or non-derivative instruments. Since IAS 39 does not allow a derivative to be designated as a hedged item, there is currently an inconsistency between hedge accounting and risk management practices.

We then welcome the Board proposal to allow an aggregated exposure that is a combination of another exposure and a derivative to be designated as hedged item as it is more closely aligned with the entity's risk management strategy.

Nevertheless, clarifications seem necessary to fully understand how such hedged combination will be treated in the financial statements (for instance, how will derivatives part of the hedged exposure be treated ? As hedging or trading instruments ?)

Designation of risk components 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 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) irrespective of the nature of the item being hedged. This will align more closely hedge accounting with risk management strategy.

However, we do not agree with the Board's decision to prohibit entities from designating as hedged item inflation component of financial instruments unless it is contractually specified, as well as the credit risk component (see question 15). These arbitrary restrictions are unduly maintaining a rule-based approach in the ED without any strong conceptual basis.

We have also strong concerns about the restrictions maintained in the ED for the designation of sub-Libor components as hedged items. On this issue, as well as for other issues still mentioned, hedge accounting shall reflect risk management activities.

We do not see why hedging financial debt instruments that are above Libor assets is different from hedging financial debt instruments that are below Libor assets when the positive or negative component to be added to the reference interest rate (Libor) to obtain the instrument's interest rate has various rationale which are not based on interest rate. For instance, as of early 2011, German Bunds are below Libor assets ; this situation was due to various factors : a very low credit risk on the German Treasury, the high liquidity of German Bunds, the fact that German Bunds are deliverable to European futures contracts, all factors that are not related to the interest rate component that the entity may want to hedge (the Libor component).

The sub-Libor issue is also raised when banks are hedging interest rate exposures on their customer deposits. As far as this issue is at the heart of banking activities, it should be properly addressed when the objective of hedge accounting is to remain fully consistent with risk management strategy. Proposals for micro-hedging shall not preclude the coming developments of the macro-hedging framework that should be based on the same general objective.

Designation of a layer component of the nominal amount***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 that an entity should be allowed to designate a layer of the nominal amount of an item as hedged item either in a cash flow or fair value hedge relationship. This will allow a better alignment of hedge accounting with risk management practice, addressing the fact that a layer approach is addressing the level of uncertainty surrounding the amount or the amount of the hedged item.

(b) We disagree with the prohibition from designating as hedged item a layer component of a contract that includes a prepayment option.

At a portfolio level, it is possible to assess the prepayment risk on a global basis taking into consideration the behaviour of all constituents. Using historical data for instance, the entity can be able to determine a bottom layer of the whole loans portfolio which behaves as it has no prepayment embedded option.

Measuring reliably the risk component on portfolio basis shall remain a core principle when determining whether it is possible for a given situation shall be left to the entity rather than being prohibited under a restrictive rule-based standard.

Like for the sub-Libor issue mentioned in our answer to question 4, the prepayment option issue is also to be considered in the perspective of the coming macro-hedging framework. Therefore, the prohibition proposed by the ED should be reviewed and should not prevent the development of a hedge accounting approach that shall remain consistent for all portfolio basis (either closed or open).

Hedge effectiveness requirements to qualify for hedge accounting

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 welcome the removal of the current highly effective quantitative threshold (80-125%) and its replacement by a more qualitative assessment of hedge effectiveness. It will help entities to implement hedge accounting on a broader scope consistently with their current risk management practice without being anymore discouraged by the current restrictive requirements. For the same reason, we also welcome the elimination of retrospective hedge effectiveness testing.

Under the proposed principle-based approach, we agree with the example mentioned in paragraph B34 "when critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging relationship will probably achieve systematic offset and that the hedge ineffectiveness, if any, would be expected to produce a biased result."

But we also note in paragraph B29: “The objective of the hedge effectiveness assessments is to ensure the hedging relationship will produce an unbiased result and minimise expected hedge ineffectiveness.” The notion of “unbiased result” should be clarified in order to avoid being too narrowly interpreted. Entities should not be obliged to adjust systematically their hedging instruments positions for only being always fully (100%) effective; risks managers often works within sensitivity limits and do not rebalanced their hedging transactions systematically as long as they remain within these limits.

Clarifications will be welcome as well around the terms “expected to achieve other than accidental offsetting”.

Rebalancing of a hedging relationship

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) As compared to the current IAS 39, we consider the notion of rebalancing as an improvement since it avoids frequent discontinuations and restarting of hedge relationships when the risk management remains the same.

To appropriately reflect the effects and extent of the risk management activities, a flexible approach is needed that allows for adjusting a continuing hedging relationship. The rebalancing mechanism shall reflect the economics of a dynamic hedging strategy.

However, clarifications are needed to ensure that the rebalancing mechanism remain consistent with the risk management strategy and practice. We are concerned about paragraph 23 when it states that “an entity shall rebalance the hedging relationship so that it meets the qualifying criteria again.” Rebalancing shall be applied consistently with the risk management in order to avoid daily rebalancing based on short term fluctuations of hedge ratio around the long-term trend. Judgement will be necessary to determine when and whether rebalancing will have to be applied, which nevertheless remain consistent with a more principle-based approach for hedge accounting requirements.

(b) We agree that proactive rebalancing should be allowed as it will enable hedge accounting to be consistent with the entity’s risk management strategy where it anticipates changes in the effectiveness of a hedge relationship.

We also consider that voluntary de-designation of a hedged item should be possible when the hedging instrument does not meet any more the objective of the hedge effectiveness and despite the objective of risk management remains unchanged. The rebalancing mechanism shall not impose the entity to enter into new hedging derivatives only for accounting purpose if such new transaction does not fit with the current and remaining risk strategy. De-designation should be then allowed.

Discontinuing hedge accounting***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) In our answer to question 7, we have raised some concerns about the rebalancing mechanism and its frequency that should not lead to daily adjustments of the hedge relationship. Due to the interactions between rebalancing and discontinuation, we wish to express the same reservations before agreeing that hedge accounting should be discontinued when the hedge relationship ceases to meet the qualifying criteria.

(b) We have concerns about the consequences of this prohibition to discontinue hedge accounting and its possible inconsistency with risk management.

Additionally, as far as hedge accounting is not mandatory but based on a voluntary designation, would it not be possible to adopt a symmetrical approach for de-designation? This point should be further explored in the context of dynamic hedging strategies as those applied to opened portfolios.

Accounting for fair value hedges***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 agree with the final Board's decision to abandon its initial proposal to fully align accounting for fair value hedge with the accounting for cash flow hedge and we fully share the arguments provided in BC 120 that support this decision.

But we find no rationale basis for supporting the two-step approach for recognition of gains and losses in OCI before transferring the ineffectiveness to profit and loss account. Since the recognition of ineffectiveness in profit and loss account remains unchanged compared to IAS 39, we see no improvement from using an intermediate recording through OCI and we rather prefer a one-step approach.

Adding three lines in OCI would undermine the clarity and the understandability of the financial statements. It will only create operational difficulties without providing valuable information to users. We do not consider that primary financial statements is the best place to provide information about complex hedging strategies that could rather be provided in a more suitable way in the disclosures.

(b) We disagree 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.

For entities like financial institutions applying hedge accounting to a wide range of assets and liabilities, the proposed presentation requirements would increase the number of line items presented on the face of the statement of financial position without providing additional clarity.

Moreover, where the entity is hedging net positions, the split presentation of the adjustment of hedged assets and liabilities on both side of the statement of financial position will be purely artificial. Such desegregated presentation will not provide a representative view of the risk management strategy since it will not enable users to distinguish between hedging adjustments resulting from single hedges and hedges of closed portfolios.

For single hedges, we therefore prefer to keep the presentation currently applied under IAS 39, gains and losses on individually hedged items being aggregated in the same line as these hedged items with additional information presented in the disclosures for each line item. For hedges of closed portfolios, we would suggest to present the gain or loss on the net position in a single line on the face of the statement of financial position (either on the asset side or on the liability side pending on the balance) with appropriate disclosure allowing users to identify hedged net instruments and the associated gains or losses related to those items.

(c) We agree.

Accounting for the time value of options for cash flow and fair value hedges

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 welcome a proposal that solves the issue of ineffectiveness currently existing under IAS 39 regarding time value component of options. We believe that the time value of options represents the cost of hedging (which is known at inception) and should not create undue volatility in P&L.

Addressing this issue in the ED, the Board has acknowledged that intrinsic value and time value of an option contract shall be separated as well as the interest element and the spot price of a forward contract, when designating a hedging instrument in a hedging relationship (paragraph 8). Despite this sound acknowledgement, the ED elaborates on accounting for the time value of options through paragraph 33 but surprisingly not on accounting for the interest component of forward contracts despite the fact both are fully comparable. We guess that it is only a forgetting that will be solved in the final standard.

However, we believe that those requirements are adding complexities and could be simplified. For instance, instead of creating a new hedge accounting mechanism specifically for time value of option, a simple accommodation of current FVH and CFH could be considered.

(a) We agree with recycling the initial time value of options in P&L or as a basis adjustment when the hedged transaction impacts the financial statement. This treatment is consistent with considering the time value as the cost of hedging under an insurance premium view.

(b) In case of time period related hedge relationship, we agree that time value of options should be deferred and amortised on a rational basis over the hedging relationship in order to properly reflect the cost of hedging.

(c) Clarifications are needed in order to assess whether this new concept of “aligned time value” is different or not from the concept of “hypothetical derivative” currently existing in IAS 39. We are not convinced that the expected benefits will outweigh the increasing complexity introduced through this requirement and the related operational difficulties. We suggest the board continuing additional works in order to simplify this too complex accounting treatment.

Hedges of a group of items

Question 11: Eligibility of a group of items as the hedged item

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 welcome proposals that allow reflecting in the financial statements the risk management activities of the reporting entity. Therefore, we agree that a hedged item could be designated on a gross or net basis, as well as on an individual or portfolio basis, according to current risk management practices.

Unfortunately, the current proposals are only a step towards the development of a comprehensive accounting model for hedges of portfolios; either closed or opened (macro-hedge). Until we have a more precise view on the Board’s direction regarding macro-hedging, we are not in a position to build a definitive opinion on the proposals of this ED related to portfolio hedge.

Nevertheless, we believe that the ED should not include restrictive proposals that will constraint the further developments on the macro-hedging framework, such as, for instance:

- the exclusion, from eligible hedged items included in the portfolio, of core-deposits and financial instruments with prepayment options;
- the sub-Libor issue.

Question 12: Presentation

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 support a broader approach that would allow presenting all effects of hedge accounting for a net position of offsetting items in a single line both in the statement of financial position and in the income statement, in order to avoid meaningless and artificial grossing up of gains, losses, assets and liabilities.

We then agree with the proposal to present, in a separate line item in profit or loss, the net gains or losses from the hedging instruments when they are designated in a hedging relationship of a net position of offsetting items that individually affect different lines of the profit or loss statement.

But we disagree with the Board’s proposal which requires the presentation in the statement of financial position of fair value adjustment on separate lines for each individual asset and liability which are part of the hedged portfolio. It would provide, on the face of the statement of financial position, information that is inconsistent with reporting entity’s risk management activities.

Disclosures**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?

No, we do not fully agree with the proposed disclosure requirements.

We support the disclosures that enable users to understand the entity's risk management strategy, its hedging activities and the effect of hedge accounting on the financial statements.

But we are concerned about the prescriptive nature of many requirements as written in paragraphs 44 and followings. We have also concerns about the potential commercial sensitivity of some disclosures required in the ED for each type of risk.

A fair balance should be found between the volume of information and its usefulness taking into account the various circumstances in which hedging strategies are developed. Disclosure requirements shall avoid leading to a "ticking box" approach and shall rather be focused on the main strategies that have a significant impact on the entity's financial statements.

Furthermore, we find it difficult to understand how these requirements will be consistent with the disclosure requirements of IFRS 7 regarding disclosures related to financial instruments and IAS 1 regarding movements in OCI. We urge the Board to consider these consistency issues and to perform a comprehensive cost-benefit analysis of the whole package of disclosures that is planned to be required by the whole IFRS 9 (including all phases) before finalizing its standard.

Accounting alternatives to hedge accounting**Question 14: Accounting for a contract for a non-financial item that can be settled net in cash as a derivative**

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 agree with the proposal as far as such accounting will solve some practical issues and will provide useful information in the financial statement by allowing entities to better reflect their risk management activities.

Question 15: Accounting for credit risk using credit derivatives

(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 have welcomed the general objective of the ED when it proposes that hedge accounting should represent in the financial statements the effect of the entity's risk management activities and we have agreed with the approach that was adopted by the Board in order to issue a principle-based standard for hedge accounting (see our answer to question 1).

We then believe that the ED and the final standard should provide treatments that allow entities to capture and reflect in their financial statements all of their risk management practices. Unfortunately, under the current proposals, it remains difficult to designate credit derivatives as hedging instruments despite their use by many financial institutions for credit risk management purposes which is clearly acknowledged in BC219.

We regret that the Board has left such rule-based provisions in its ED. All the three alternatives proposed by the Board are not satisfactory since they are based on the fair value option which implies to recognise all changes in fair value in P&L, including components that may not be hedged by the entity, such as the interest rate risk.

Even if hedge effectiveness could be difficult to assess for the current credit derivatives, this issue shall be left to the entity performing this assessment rather than being prescribed in the coming standard. Furthermore, other ways could alternatively been explored by the Board should such as accounting for the premium on the credit derivatives in way that it is allocated over time by using other comprehensive income, which is the proposed treatment for options, or an accounting similar to insurance contracts, for instance.

Effective date and transition

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 prospective application proposed by the ED, which is more operational than a full retrospective one. Moreover, we are in favour of a single application date for all new standards impacting financial services activities (among which all phases of IFRS 9 including hedging of opened portfolio).

As mentioned in our answer to the Request for Views on Effective Dates and Transition Methods, we consider that:

- the implementation period should not be less than three years after the issuance of the full set of new standards to be applied (with all phases of IFRS 9 including macro-hedging). On the basis of the current time schedule of IASB, expecting all standards to be issued before the end of 2011, the effective date for their first application would not be then earlier than January 1st, 2015.
- A full retrospective application of the new standards is not appropriate and we rather suggest applying the same transition approach as the one applied by first time adopters for IAS 39 in 2005. The opening balance sheet would be then restated according to the new standards and a reconciliation schedule would be provided between closing and opening balance sheet figures with appropriate explanations, avoiding any restatement of previous years.