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Dear Sir David

## **Re.: Exposure Draft 2010/13 “Hedge Accounting”**

We appreciate the opportunity to comment on the exposure draft mentioned above and would like to submit our comments as follows:

### **General Remarks**

The IDW welcomes the exposure draft as a significant step in developing a new standard for the reporting of financial instruments as called for by the G20 leaders. The proposed new general model for hedge accounting aligns financial reporting with risk management activities in many areas and replaces some rule-based and complex requirements of IAS 39.

In our view, the Board's proposals would improve reporting for financial and non-financial entities alike and resolve various practical issues that have been identified in the past. Certain of the changes would broaden the scope of eligible hedging instruments and hedged items beyond the inadequate restrictions in IAS 39. For example, hedge accounting for groups of items would be extended and the revised criteria would allow some net positions to be eligible hedged items. Moreover, hedge effectiveness assessment would only be required on a prospective basis and would be simplified substantially. In particular, the expo-

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sure draft permits a qualitative assessment and eliminates the arbitrary bright line test.

There may be a significant benefit for non-financial institutions, as such entities would be able to hedge specific components of non-financial items, which hitherto was not the case. Whether financial institutions will also benefit substantially from the new standard mainly depends on the proposals relating to open portfolios and macro hedging that are not included in the exposure draft, but are due to be released later in 2011.

However, we do have concerns in relation to the following aspects of the exposure draft:

- The proposed objective is misleading as it gives the impression that there is a comprehensive link between risk management and financial reporting that does not exist (see our answer to question 1).
- Designating portions of hedging instruments would allow an entity to reflect the results of its risk management activities more accurately (see our answer to question 2).
- As far as risk components of hedged items are concerned, the provisions of the exposure draft relating to the conditions of "separately identifiable" and "reliably measurable" are inconsistent in their application to different types of risks (see our answer to question 4).
- An entity should be allowed to voluntarily dedesignate a hedging relationship that still meets the risk management objective and strategy (see our answer to question 8).
- In order to reduce the complexity of the proposals, we would prefer only one method be adopted to account for the time value of all options (see our answer to question 10).

We would like to comment on the specific proposals as follows:

### **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?*

The IASB is proposing that the objective of hedge accounting is to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (paragraph 1). This proposed wording attempts to combine two possible objectives of hedge accounting:

- (a) to provide a link between an entity's risk management and its financial reporting (top down approach).
- (b) to mitigate the recognition and measurement anomalies between the accounting for derivatives or other hedging instruments and the accounting for hedged items (bottom up approach, paragraphs BC14 and BC16).

We believe that both the top down approach and the bottom up approach have their respective merits and should, in principle, be integrated into the final objective with equal prominence; in case of doubt the bottom up approach should take precedence over the top down approach.

The Board's proposed objective overemphasises the entity's risk management and does not take into account the fact that the IASB continues to restrict the representation of risk management activities in the financial statements in many cases. For example, a hedging instrument must be designated in its entirety (with limited exceptions) and for the entire time period during which it remains outstanding, independent of the entity's risk management activities. The proposed objective is misleading as it gives the impression that there is a comprehensive link between risk management and financial reporting that does not exist, thus resulting in an expectation gap. The Board should modify the objective to avoid inconsistencies between objective and individual proposals.

Even if the top down approach and the bottom up approach receive equal prominence in the final document, in order to consider the ambiguity in the wording of the objective, we recommend the objective not be part of the main body of the standard, but instead only be explained in the basis for conclusions.

Theoretically, if the IASB intends to align risk management activities and financial reporting to a greater extent, it could require entities to reflect risk management activities within financial reporting, provided that this does not violate the (remaining) restrictions on hedge accounting in the future standard. Nevertheless, the following circumstances must be taken into account:

- Risk management is not defined, has no boundaries, and is not applied uniformly. Risk management policies can be written in any manner to permit an entity to move in and out of hedge accounting freely as a function of how it evaluates risk and documents its risk management policy (paragraphs AV4 et seq.).
- A comprehensive link between risk management and financial reporting is not possible anyway.
- Many smaller and medium-sized entities do not have sophisticated risk management.
- Hedge accounting would remain a “de facto option” because an entity can always decide whether to meet the qualifying criteria for hedge accounting (e.g. documentation).
- Hedge accounting can be costly and complex. Entities should not be forced to bear this burden.

Therefore, as hedge accounting should be more closely aligned to risk management, the IASB should encourage entities to reflect risk management activities within financial reporting to the greatest possible extent.

The proposed objective refers to exposures that could affect profit or loss. Consequently, hedge accounting would not be applicable to investments in equity instruments designated as at fair value through other comprehensive income. In our view, the Board should redeliberate this issue and should also allow entities to align their risk management and hedge accounting in such cases. One possible solution would be to amend the objective to state that the hedged exposure could affect either profit or loss or other comprehensive income, rather than only profit or loss.

### **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?*

Although we see no current necessity, we do not object to the proposal to expand the use of hedge accounting to permit a non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss to be designated as a hedging instrument.

In this context, we suggest the designation of hedging instruments be allowed for only a portion of the time period during which the hedging instrument remains outstanding ("partial term hedge") and the designation of other portions of hedging instruments, provided that the entity can disaggregate the hedging instruments into components reliably (e.g. in case of swaps).

Permitting an entity to designate a risk component as the hedging instrument would allow the entity to reflect the results of its risk management activities more accurately. Introducing the criterion "reliable disaggregation" avoids having to significantly expand the scope of the hedge accounting project.

### **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 with the Board that an aggregated exposure that is created by including a derivative should not, of itself, preclude designation of that aggregated exposure as a hedged item (paragraph 15). In practice, entities often hedge an aggregate or synthetic exposure, which includes a derivative, for risk management purposes.

We are aware of some constituents who wonder whether the exposure draft seems to permit "synthetic accounting" for derivatives by allowing an aggregate exposure that contains a derivative to be a hedged item: In the example in paragraph B9(b), the fixed rate foreign currency denominated debt and the cross-currency interest rate swap synthetically create together a domestic currency variable rate instrument. This means that during the hedging relationship the cross-currency interest rate swap would be measured at amortised cost rather than its changes in fair value being recognised in profit or loss. We suggest the IASB provide an illustration of the accounting entries to clarify this issue.

In this context, we would like to raise another question: If a foreign currency derivative is embedded in a host contract that is not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) and should be separated from the host contract in accordance with IFRS 9, the exposure draft seems to allow to designate the aggregated exposure as hedged item in a cash flow hedge. Does this imply that the embedded derivative must not be separated from the host contract?

#### **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 (i.e. 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?*

In general, we agree that an entity should be allowed to designate as a hedged item changes in the cash flows or fair value of an item attributable to a risk component, provided that the risk component is separately identifiable and reliably measurable (paragraph 18). This would link hedge accounting and risk management more closely.

Moreover, we support the alignment of requirements for both financial and non-financial items.

However, we doubt whether particular provisions of the exposure draft relating to the criteria "separately identifiable" and "reliably measurable" are consistent for different risks (in cases where the risk component is not contractually specified):

- On the one hand, the exposure draft contains very restrictive guidance on certain risks: The introduction and the basis for conclusions state that financial institutions that manage credit risk using credit derivatives generally do not achieve hedge accounting because it is operationally difficult (if not impossible) to isolate and measure the credit risk component of a financial item as a component that meets the eligibility criteria for hedged items (paragraphs IN46, BC220, BC225). In addition, the Board proposes that inflation is not separately identifiable and reliably measurable and cannot be designated as a risk component of a financial instrument unless it is contractually specified (paragraph B18).
- On the other hand, the example in paragraph B15(b) allows entities to designate hedging relationships for forecast jet fuel purchases on a risk components basis for crude oil or gas oil not specified in any contractual arrangement because there is a relationship between the respective prices. In our view, the wording of the proposal is unclear. Particularly, in identifying the portion being hedged, the exposure draft does not deal with the question of whether the fair value changes of the residual portion which are not hedged must be isolated and measured separately. This would, however, be necessary to calculate and account for any ineffectiveness. Based on the vague and "liberal" provisions of the exposure draft, it seems that many non-

financial institutions could use hedge accounting extensively and also avoid the recognition of any hedge ineffectiveness in such scenarios.

The exposure draft does not explain the rationale behind the differing guidance on such risks. In our view, if a relationship for forecast jet fuel purchases can be designated on a risk components basis (for crude oil or gas oil) because the risk component is assumed to be separately identifiable and reliably measurable, we believe that similar treatment would be equally appropriate for credit risk and inflation risk.

In our opinion, the Board should not provide guidance on hedge accounting for any kind of risk that is overly specific. It is preferable to allow time for practice to develop from clear objectives and principles in the standard, to properly reflect economic risk management.

Given this, we suggest that the IASB avoid introducing inconsistencies, make its concept more operational and describe this concept in the main body of the standard.

Finally, we recommend that the Board clarify whether it is permissible for entities to designate a component of an aggregated exposure (that is a combination of an exposure and a derivative) as a hedged item (paragraphs 12, 15, 18).

#### **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): The IDW shares the Board's view that a layer component of a nominal amount should be eligible as a hedged item for both anticipated and existing transactions.

(b): The proposal precludes a layer component of a contract that includes a certain prepayment option from hedge accounting because, if the prepayment option's fair value changed in response to the hedged risk, a layer approach would be tantamount to identifying a risk component that was not separately identifiable (since the change in the value of the prepayment option owing to the

hedged risk would not be part of the hedge effectiveness, paragraph BC69). While we acknowledge the conceptual merit of the Board's deliberations, we are concerned that the proposal does exclude an important risk management activity of financial institutions from the new general model for hedge accounting. Because the implications of the proposal on portfolio hedges of interest rate risk (that are not subject of the exposure draft) are unclear, we are not able to state our final position at present.

There is some uncertainty as to whether paragraph B23 excludes only the layer component or the whole contract from hedge accounting. Some clarification of this aspect would be helpful in the final document.

#### **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 agree that the hedge effectiveness assessment should only be required on a prospective basis (paragraph B32) and that the arbitrary and onerous bright line test should be abolished (paragraph BC78 et seqq.).

Furthermore, the IDW supports the Board not specifying a method for assessing whether a hedging relationship meets the hedge effectiveness requirements, thus permitting both qualitative and quantitative assessment. In particular, we support the proposal that, when the critical terms 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 meets the hedge ineffectiveness requirements (paragraph B33 et seqq.).

In this context, we agree with the proposal to allow the "hypothetical derivative method" to be applied to measure hedge ineffectiveness as well as to assess hedge effectiveness (paragraph B44 et seqq.).

The qualifying criteria for hedge accounting in paragraph 19 do not explicitly state that a hedging relationship needs to be aligned with the entity's risk management objectives. However, paragraph B53 sets out that if the risk management objective for a hedging relationship changes and is no longer aligned, the entity would discontinue hedge accounting. Therefore, we believe that in order to qualify for hedge accounting, a hedging relationship must be aligned with an entity's risk management objectives at inception. This seems appropriate for



hedges of single items. Nevertheless, in more complex scenarios, the use of proxies as hedged items should be allowed under certain conditions.

Paragraph B29 provides that a hedging relationship has to produce an unbiased result and minimise expected hedge ineffectiveness. Nevertheless, in our opinion an entity is not obliged to choose the hedging instrument that provides the best possible offset in all cases. Rather, an entity has to choose a hedging instrument that minimises ineffectiveness while adhering to its risk management policies, which usually take into account market conventions and transaction costs. We would appreciate some clarification on this issue.

Paragraph B31 states that a statistical correlation between two variables that have no substantive economic relationship would not support a valid expectation of other than accidental offsetting. In our view, this example is not very helpful because a statistical correlation is generally not accidental.

#### **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) and (b): In general, we agree with the proposals on rebalancing. However, rebalancing should only be mandatory for accounting purposes if the hedging relationship has previously been rebalanced for risk management purposes. This would be consistent with the proposed objective of hedge accounting, i.e. reflecting the effect of an entity's risk management activities in the financial statements.

**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): We share the Board's opinion that an entity should discontinue hedge accounting prospectively when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after rebalancing, paragraph 24).

(b): Prohibiting voluntary dedesignation is inconsistent with paragraph 2 of the exposure draft. We believe that an entity should be encouraged not to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy and that continues to meet all other qualifying 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?*

(a): We acknowledge that presenting the effects of risk management activities for both cash flow hedges and fair value hedges (except for the ineffective por-

tion of the gain or loss) in one place, i.e. in other comprehensive income, will make the statement of comprehensive income easier to understand.

Nevertheless, we would like to emphasise again the need to consider the conceptual question as to which items must or may be presented in other comprehensive income and whether, when and how items of other comprehensive income must be reclassified to profit or loss ("recycling"). Given these unresolved issues, it is unsatisfactory from a conceptual viewpoint that the IASB is introducing, on a project-by-project basis, new items of income or expense be included in other comprehensive income.

(b): Presenting separate line items next to the line items that include the hedged assets or liabilities would increase the number of line items in the statement of financial position. In many cases, the resulting level of disaggregation in the primary financial statements would be inappropriate. This could be avoided by presenting only one line item in the statement of financial position and disaggregating this total amount in the notes.

(c): We do not support the "linked presentation" discussed (i.e. displaying together gross amounts of related items in the statement of financial position while the net amount is included in the total for assets or liabilities), since it could result in a net amount for an asset and a liability that are "linked" even though that link affects only one of several risks underlying the asset or liability (paragraph BC128). Furthermore, this is an issue which applies only to a specific industry, i.e. the problem is not relevant to the vast majority of reporting entities.

#### **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 (e.g. 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 time 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?*

(a) - (c): Treating the time value of an option as a cost of obtaining protection against unfavourable changes in prices or rates aligns financial reporting with risk management activities. However, the fact that there are various methods for recognising the time value of an option and changes therein depending on the nature of the hedged item adds complexity to financial statements. In order to reduce such complexity, the IASB should consider stipulating a single method to account for the time value of all options. In our view, the underlying "insurance premium view" suggests that the method currently proposed for time period related hedged items could be applicable in all cases because the time value of all options is subject to time decay. This means that it loses its value over time as the option approaches expiry (paragraph BC147).

The current guidance in the exposure draft is not sufficient to help preparers and users understand the complex mechanics of how to account for the time value of options. Instead of preparing web pages with "Additional information", we recommend some illustrative examples be included in the final document.

(b): In respect of time period related hedged items, paragraph 33(c) states that if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment. In addition, paragraph 155 of the basis for conclusions sets out that, when the hedged item is impaired, the criteria for qualifying hedges are no longer met and hence result in an impairment loss for the remaining unamortised balance of the time value of the option. We believe that this guidance should not be part of the basis for conclusions, but should be integrated within the main body of the future standard.

We refer to our answer to question 9, in respect of the necessity to solve the conceptual problem of other comprehensive income (including "recycling").

**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?*

The IDW acknowledges that the revised criteria would allow more groups to be eligible as hedged items, including net positions. Insofar, the Board's proposals would remove the current inconsistency with the way in which many entities actually hedge their risk exposures.

We particularly welcome the IASB's intention to abolish the current restriction in IAS 39 whereby the change in the fair value attributable to the hedged risk for each individual item in a group must be approximately proportional to the overall change in the fair value of the group for the hedged risk.

**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 (e.g. 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 proposal.

**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?*

(a) and (b): The proposed disclosure requirements only relate to those risks that an entity has decided to hedge and for which hedge accounting is applied. This results in an only partial reflection of the economic hedging activities in the financial statements. Nevertheless, we believe that such limitation of an entity's reporting of its hedging activities is appropriate within the scope of the project to replace IAS 39.

Paragraph 46 requires disclosures for each subsequent period that the hedging relationship is expected to affect profit and loss, the following:

- monetary amount or other quantity to which the entity is exposed for each particular risk;
- the amount or quantity of the risk exposure being hedged; and
- in quantitative terms, how hedging changes the exposure.

In our view, such excessive quantitative disclosure requirements are too onerous and, in case of entities with a single product range, commercially sensitive.

#### **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?*

From a conceptual point of view, it seems arguable to apply derivative accounting to executory contracts that meet the "own use exemption" provided it is in accordance with the entity's fair value-based risk management strategy. Moreover, Appendix C does not contain the precise wording of the intended amendments. Hence, we are not in a position to give our final opinion 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?*

(a) and (b): In the light of the complexities that including the three alternatives would introduce, we share the Board's view that an elective fair value accounting for part of the nominal amount of hedged credit exposures (such as loans and loan commitments) should not be allowed.

However, we do not believe that credit risk possesses an exceptional nature that would make it impossible to achieve hedge accounting under IAS 39 as well

as under the exposure draft<sup>1</sup>. In our view, hedge accounting should be applicable to economic hedges of credit risk provided the general requirements are met. When credit risk is managed in practice, this should be reflected in the financial statements - consistent with the objective in paragraph 1 of the exposure draft. In many cases, credit risk is managed and measured separately from other types of risk by different members of the risk management team.

We refer to our answer to question 4 in respect of the inconsistent provisions of the exposure draft relating to the conditions of "separately identifiable" and "reliably measurable" for different risks.

#### **Question 16**

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

In general, we agree with the prospective application of the proposed hedge accounting requirements because hedge accounting relationships can only be designated prospectively.

However, we are concerned about the interrelation between the transition requirements of the different phases of IFRS 9. For instance, when applying

- the new hedge accounting model prospectively beginning on 1 January 2013, and
- the classification and measurement provisions of IFRS 9 beginning before 1 January 2013,

the financial statements for 2013 will include comparative figures for 2012 that are, in part, based on IFRS 9 (classification and measurement) and, in part, on IAS 39 (hedge accounting). Combining the classification and measurement pro-

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<sup>1</sup> For example, both IAS 39 and the exposure draft permit the risk component in an interest rate fair value hedge to be identified and measured by reference to either LIBOR, EURIBOR or similar curves of various durations. LIBOR, for instance, is considered to represent a risk-free market interest rate. Yet it is widely accepted that LIBOR includes the credit risk of the participating banks and that different LIBOR tenors carry very different credit and liquidity spreads, none of which being reflective of the hedged item. Nevertheless, it is generally accepted that, given the particular market structure, changes in a specified LIBOR rate, which is not contractually specified in the hedged item, provide a reasonable means to separately identify and reliably measure changes in the fair value of the hedged item resulting from changes in market interest rates.

visions of IFRS 9, including the treatment of embedded derivatives, and the hedge accounting requirements of IAS 39 could result in significant consequences for existing hedging relationships (e.g. discontinuation). We suggest the boards clarify the practical implications of this issue.

In addition, the proposals fail to address some important questions in respect of transition. For example, it remains unclear how entities are to deal with an (pursuant to IAS 39) existing adjustment to the carrying amount of a hedged item measured at amortised cost (i.e. the gain or loss on the hedged item attributable to the hedged risk) when fair value hedge accounting is adapted in line with the new model. Questions such as the following need to be addressed: Should the hedging gain or loss on the hedged item be separated from the previous carrying amount and subsequently recognised and presented as separate line item in the statement of financial position? Is it necessary to separate the remaining adjustments (i.e. adjustments that have not been amortised fully), even if fair value hedge accounting in accordance with IAS 39 has already been discontinued before the effective date?

Finally, in the light of the current status of the project to replace IAS 39 and necessary lead-time to implement the final requirements, we believe that the proposed effective date of 1 January 2013 is unrealistic.



### **Other Remarks**

One important difference between risk management and hedge accounting should be addressed as part of the project. The current restriction to measure the fair value of financial liabilities with a demand feature prevents financial institutions from applying fair value hedge accounting to the majority of their current accounts: For risk management purposes, demand deposits are normally risk-managed based on expected withdrawal, which is typically later than the contractual maturity. According to IAS 39, such deposits can never have a fair value less than the amount payable on demand, making them ineligible for fair value hedge accounting.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Norbert Breker  
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