

CONFÉDÉRATION NATIONALE DU CRÉDIT MUTUEL**EXPOSURE DRAFT OF PROPOSED
AMENDEMENTS TO IAS 39****ACCOUNTING FOR A PORTFOLIO HEDGE
OF INTEREST RATE RISK****Question 1**

Do you agree with the proposed designation and the resulting effect on measuring ineffectiveness? If not,

We don't agree with these proposals.

(a) in your view how should the hedged item be designated and why?

The Board has decided to explore whether and how IAS 39 might be amended to enable fair value hedge accounting to be used more readily for a portfolio hedge of interest risk with the aim to develop an approach that would be workable in practice.

We think that the proposed practice is not consistent with ALM techniques, and would necessitate major system changes. We agree with the position of some Board members which prefer the designation of a net position. The ALM manager hedges an overall net position resulting from a global portfolio. Then, he monitors the gap between fixed assets and liabilities over time and adjust the hedged amount, including in particular the prepayments.

With regard to ineffectiveness, we think that the approach C is the most appropriate way to designate the hedged item. In practice, we only hedge part of the global position. This method allows that prepayments be linked to the unhedged risk of the net position.

(b) would your approach meet the principle underlying IAS 39 that all material ineffectiveness (arising from both over- and under-hedging) should be identified and recognized in profit or loss?

We think that a portfolio hedge of interest risk is specific and should not receive the same treatment as a fair value hedge.

The ineffectiveness must be recognized only when the net position in the portfolio is overhedged, solution which has been approved by five Board members. This is the case when the nominal amount of the hedging derivatives is higher than the amount of the hedged position.

- (c) under your approach, how and when would amounts that are presented in the balance sheet line items referred to in paragraph 154 be removed from the balance sheet?**

We think that these amounts should be removed from the balance sheet when the hedged amount is below the nominal amount of the hedging derivatives, or when the time period expires. As long as these conditions are not met, there is no reason to derecognise these adjustments. The fair value changes are recorded in profit and loss every year or/and in the interim financial statements.

Question 2

Do you agree that a financial liability that the counter party can redeem on demand cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counter party can demand payment?

We do not agree with this decision - because banks include demand deposits in the portfolio hedge at periods resulting from the statistical analysis using historical data and economic analyses. The banking supervisors and the Basel Committee include this approach in their prudential rules.

If not,

- (a) do you agree with the Board's decision (which confirms an existing requirement in IAS 32) that the fair value of such a financial liability is not less than the amount payable on demand? If not, why not?***

Yes, we agree with this fact, but this does not justify the exclusion of demand deposits from a hedge portfolio because the bank only wants to cover the interest rate risk on these liabilities.

- (b) would your view result in such a liability being recognized initially at less than the amount received from the depositor, thus potentially giving rise to a gain on initial recognition? If not, why not?***

No, our view would not modify the accounting of deposit on initial recognition. Indeed, these deposits would be accounted for their nominal value, that is the money given by the depositor.

If you do not agree that the situation outlined in (b) is the result, how would you characterize the change in value of the hedged item?

The changes in value of the hedged item can be accounted for in a separate line of the demand deposits as a valuation adjustment.