

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2011:05

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: Exposure Draft – ED/2010/13 – Hedge Accounting

This is the Swedish Financial Reporting Board's response to your invitation to comment on the ED Hedge Accounting.

We are in agreement with the general approach of the ED, that an entity's hedge accounting should be aligned with its internal risk management and that judgement should play a vital role. We note however that the ED does not include any proposal relating to macro hedging. As this is an important component the standard should not be finalised until a model for macro hedging has been approved.

The ED, as described further in this document, includes questionable proposals on the presentation and accounting with respect to profit or loss and OCI. This further confirms the view that we have expressed previously that the IASB must develop a robust policy on the content of performance reporting.

We do not support the following:

- The restriction that only non-derivative contracts measured at fair value may be designed as hedging instruments, since internal risk management may be to manage a component of a non-derivative financial instrument, either as a hedged component, but also as a hedging instrument.
- The restriction that the hedged component cash-flows could not be larger than the total cash flow.
- The proposed accounting for cash flow hedges. We find it unacceptable that gains or losses on hedging instruments are included in total comprehensive income twice.
- The proposed accounting for fair value hedges. We would favour an approach in which the separate disclosure on value adjustments due to hedging relationships are disclosed in the notes instead of the amounts being reported in OCI.
- The proposal to not adjust the carrying amount of the hedged item for changes in fair value.
- That the measurement of ineffectiveness restricts the possibility to achieve a hedge accounting that is in line with the internal risk management.



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Below you will find detailed remarks on the exposure draft.

Non-derivative contracts as hedging instruments

We support the proposal to use non-derivative financial instruments as hedging instruments. We were very negative to the last minute change from the draft E62 to the final IAS 39 that took away this possibility. However, we urge the IASB to reconsider its decision to restrict this possibility to non-derivative instruments measured at fair value in their entirety. We consider this to be a cross-cutting issue and therefore do not support that the standard for financial instruments continues with a unit of account, which seems to have been abandoned in other areas (e.g. the EDs on Insurance, Leasing and Revenue recognition). Furthermore, the ED is internally inconsistent since it argues that there are no difficulties in identifying non-contractual components that could be designated as the hedged items, while it seems to say that it is impossible to reliably measure non-contractual components in hedging instruments. On balance the IASB ought to come to the conclusion that this cross-cutting issue needs to be explored further, without being restricted by the self-imposed time table.

Components as hedging instruments and hedged items

We urge the IASB to reconsider the restriction that the hedged component cash-flows could not be larger than the total cash flows. We believe that it should be possible to designate the sub-libor component as the hedged item if the entity's internal risk management objective is to hedge the sub-libor component and the instrument has a contractual negative spread to libor without any floors.

In our view the IASB has reached the wrong conclusion by:

1. Focusing on the example of a hedge of a single asset or single liability instead of focusing on the combination of funding, derivative contract and lending.
2. By introducing a non-linear behaviour in the funding agreement, i.e. that the cash-flows never could be negative.

This sub-libor issue is a very crucial question for all entities with a credit quality above the average. Therefore, we urge the IASB to reconsider this issue in more detail before finalising its conclusions.

Presentation of and accounting for cash flow and fair value hedges

We are positive to the decision of the IASB to abandon its tentative decision to present fair value hedges in the same way as cash-flows hedges. However, we see no added value in the two-step approach being introduced for fair value hedges which was recently abandoned for the own-credit spread issue. Instead, we prefer a one-step approach combined with relevant disclosures. There are several arguments for our view in which two of the more relevant are:

- OCI will be further expanded without a proper debate on performance.
- The figures that will be presented will be figures that have been aggregated to a proportion which make it impossible for the users to evaluate the information anyway.



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Instead a relevant disaggregation of the total hedging activity in the notes will make it much easier for the users to have a total picture of the hedging activities and at the same time be able to evaluate the efficiency of the different hedging activities.

BC 140 is clear on that the cumulative gain or loss on a hedging instrument in a cash flow hedge is removed from equity, but not from OCI. This means that a gain or loss will be retained in OCI. Eventually the amount transferred from equity will affect profit or loss. This proposal (the effects of which the IASB evidently is fully aware of) will result in the gain or loss on the hedging instrument being included in total comprehensive income twice. In our view this is unacceptable and we do not understand why the IASB is proposing this.

Furthermore, to clarify the accounting for fair value and cash flow hedges, illustrative examples should be included.

We accept today's presentation of macro hedging in which the changes in fair value of the currency units are presented on a separate line. However, for individual hedges we consider it to be more relevant to adjust the carrying amount of the hedged item and, consequently, we do not agree with the proposal that the change should be presented as a separate item. One of our main arguments is that our approach has the superior advantage of presenting the carrying amount of economic and accounting hedges in a similar way. It will not be helpful for the users if different entities present different carrying amounts for accounting hedges and economic hedges since the internal risk management objective may be the same. The selected solution will distort the possibilities for the users to compare entities with different degree of accounting hedges even though they may have the same internal risk management objectives. In our view the similarities between financial instruments measured using the fair value option or measured at fair value in a hedging relationship is greater than the differences. The disclosure requirements should instead be the focus in assisting the users in understanding the size of the hedging activities and the differences in the carrying amounts of the hedged items and the actual credit exposures.

Measurement of ineffectiveness

The measurement of effectiveness is focused on comparing the changes in fair value of the hedged item and the hedging instrument.

This choice of methodology restricts the possibility for the entities to achieve hedge accounting that is in line with their internal risk management. Furthermore, we believe that this choice of methodology may have been one of the reasons for the IASB to explicitly prohibit the possibility of using hedge accounting for an inflation component, if the component is not contractually specified, or using credit derivative contracts as hedging instruments.

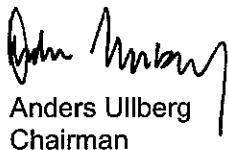
Instead it should be possible to designate e.g. non-contractual inflation components or the credit risk component of a cash-instrument in a CDS-contract as the hedged item (or hedging instrument) when measuring hedge effectiveness, if the entity's risk management objective actually is to hedge such a component or contract.

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If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, 23 March 2011

Yours sincerely



Anders Ullberg
Chairman