

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

By e-mail: Commentletters@IFRS.org

14 December 2015

RE: Request for Views 2015 Agenda Consultation

Dear Sir/Madam,

Summary:

We requests IASB to have the Macro hedge accounting project as a high priority in the coming years. The focus should be on alignment with risk management principles and operational conduct thereby further aligning the risk management principles and the accounting requirements.

IFRS 9 is insufficient in meeting the needs of the energy industry

The energy industry is characterised by a rapidly changing market with a high number of market risks that requires a complex financial risk management setup. Therefore, it has always been a challenge to reflect the risk management activities in the financial figures by achieving hedge accounting. This increases complexity in the financial reporting as the risk management activities to reduce risk in the future periods results in accounting volatility in the current financial figures.

IFRS 9 is a step in the right direction and solves some of the critical accounting issues for the industry. The endorsement of IFRS 9 by the EU in early 2016 is therefore requested by the European energy industry. Thereby making early adoption of the standard in the EU a possibility.

Hedge accounting remains a struggle in power companies after IFRS 9

However, a number of critical issues continues to make it a struggle to achieve hedge accounting, also after implementation of IFRS 9. One of the main challenge that remains is the management of the risks continues to fail in meeting the detailed requirements of IFRS. In other words, there is a need for offsetting risks between assets and liabilities within the portfolio, however, with the necessary degree of correlation between the risks generated.

The following are some examples of the challenges the industry faces:

- Hedging of a net position in an open portfolio
- Allocation of hedges to a specific time period in a dynamic environment
- Documentation requirements and effectiveness tests remains a burden

The European energy industry therefore requests IASB to have the Macro hedge accounting project as a high priority in the coming years. The focus should be on alignment with risk management principles and operational conduct when continuing the work with the new Macro hedge accounting standard. Thereby further aligning the risk management principles and the accounting requirements to increase the possibility to achieve hedge accounting and to reduce the administrative burden.

Why is it urgent to improve IFRS 9 now?

Non-financial companies (NFCs) are increasingly subject to financial regulation. In this connection there is focus on workable accounting standards to be in place. Particularly IFRS 9 is mentioned as a frame of reference both in relation to the legal provisions of European Market Infrastructure Regulation (EMIR) and Markets in Financial Instruments Directive (MiFID II). EMIR is already into force and commodity companies experience challenges in relation to documentation of risk mitigating trades (hedging), thus hedging does not count towards the thresholds of EMIR. MiFID II will come into force 3 January 2017 (might be postponed one year). NFCs can avoid being subject to a MiFID license/'bank license' if the company can demonstrate that a certain majority of its derivative portfolio is used for hedging purposes. One way of doing this is by applying hedge accounting to the derivatives. Consequently, there is an outspoken business incentive to apply appropriate accounting standards in this perspective.

In conclusion

The inadequate hedge accounting standards has a direct negative effect on the European energy industry. We therefore request IASB to have the Macro hedge accounting project as a high priority in the coming years. The focus should be on alignment with risk management principles and operational conduct thereby further aligning the risk management principles and the accounting requirements.



Juan Jose ALBA RIOS

Chairman of EURELECTRIC's Market Committee



Bernhard WALTER

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