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Date : Amsterdam, 1 March 2011
Re : Comment on the Exposure Draft Hedge Accounting

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on your draft comment letter to the IASB regarding Exposure Draft Hedge Accounting (ED).

While we are highly supportive of the IASB's direction in the proposed model, i.e. to apply hedge accounting that is more principle-based and that is more aligned with the entity's risk management activities, we have some serious concerns which we have summarised in this letter.

Your draft comment letter is a good summary of the main changes proposed and includes many comments with which we concur, although we have different or alternative views in respect of questions 5, 6 and 8. Our detailed responses to the questions as well as our responses to your specific questions to constituent are included in annex 1 of this letter.

Our main concerns relate to:

Macro hedge accounting

Given the importance of macro hedging, we believe that the IASB should not finalise a standard on a general hedge accounting model without addressing a model for macro hedging. Without understanding of the IASB's proposals in respect of macro hedging and hedging of an open portfolio, we are not in a position to fully comment on all aspects of the general hedge accounting model as proposed in the ED.

Restricting hedge accounting only to risks that affect profit or loss

We believe that hedge accounting should also be possible for hedged risks that do not affect profit and loss as economically such hedges are part for an entity's risk management

activities. We note an increase of items that are recognised through the statement of other comprehensive income without recycling to the profit and loss – e.g. in equity instruments at fair value through other comprehensive income – which are not eligible for hedge accounting whereas it is common practise to hedge such items.

Prepayment options

We do not agree with the IASB's proposal that a prepayment option is not eligible to be designated as a hedged item. This exclusion would not align with the economic risk management activities of entities that are considering prepayment options in their business.

Interpretation of assessing hedge effectiveness

Paragraph B31 requires that any offset between the hedged item and the hedging instrument is 'other than accidental' and paragraph B30 states that the hedging relationship will 'minimize the expected hedge ineffectiveness'. We have serious concerns that the phrases 'other than accidental' and 'minimize the expected hedge ineffectiveness' when read together could be narrowly interpreted and hence be considered as a rule-based approach in respect of assessing hedge effectiveness. This could result in unintended consequences and could be inconsistent with the objective of the hedge effectiveness assessment.

Rebalancing

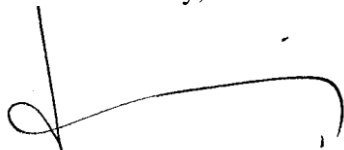
We do not believe that an entity should be required to rebalance the hedging relationship. We believe that the ED is not clear on when rebalancing is required, when it is acceptable not to do so and when the criteria regarding the proposed requirement are met as well as what the consequences are when an entity does not rebalance. We also wonder whether the requirement of rebalancing is necessary when an entity proactively rebalances its hedge relationship. The notion of rebalancing is not yet clear and should be further clarified.

Discontinuing hedge accounting

We do not agree that an entity should not be permitted to discontinue hedge accounting. Initiating hedge accounting is voluntary and we do not understand why vice versa discontinuation should be prohibited. In addition, please note that the possibility of discontinuing hedge accounting under the current macro hedge accounting model is essential and should also be considered when proposing the macro hedge accounting model.

We will be pleased to give you any further information that you may require.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans de Munnik', written over a horizontal line.

Hans de Munnik
Chairman Dutch Accounting Standards Board

Annex 1 – Comments to the EFRAG letter and responses to specific questions

Question 1.

We agree with EFRAG’s response that the proposed objective of hedge accounting reflects the extent and effects of an entity’s economic environment and its risk management activities as well as we agree that hedge accounting should not be restricted to risks that affect profit and loss only. We note an increase of items that are recognised through the statement of comprehensive income without recycling to the profit and loss whereas hedge accounting is prohibited following the ED.

Question 2.

We agree with EFRAG’s response.

Question to constituents

Do you believe there is in effect an inconsistency between (i) the irrevocable designation of a financial instrument as at fair value through profit or loss and (ii) hedge accounting that may be discontinued if that is in accordance with an entity’s risk management strategy?

We do believe that there is such inconsistency and we would like to suggest that the IASB consider further improvements to remove such inconsistency. We believe that – similar to the hedge accounting proposal – it should be possible to de-designate a financial instrument as at fair value to profit and loss if such designation was made for hedging purposes rather than applying hedge accounting.

Question 3.

We agree with EFRAG’s response as accounting of this situation better reflects the entity’s risk management strategy.

Question 4.

We agree with the EFRAG’s response as the proposal is an improvement for hedges of non-financial items (such as commodities), for which in many situations derivatives are traded in active markets that meets the ‘*separately identifiable and reliably measurable*’ criterion, but were not qualified for hedge accounting based on IAS 39.

Questions to constituents

Do you have any concerns regarding inflation as a non-contractually specified risk component of financial instruments? If so, please provide examples.

Do you have concerns with the issue of sub-LIBOR within the context of the general hedging model, i.e. hedges of individual items or closed groups of items (excluding macro hedging)? If so, please provide examples to substantiate you concerns.

We do not have objections to allow hedge accounting of inflation when it is not contractually specified if this inflation component can be separately identifiable and reliably measured. In addition, we believe that hedge accounting should also be feasible in connection with sub-LIBOR financial instruments contract as we do not see the limitations when such instruments has been hedged in accordance with an entity’s risk management strategy. We do see issues

similar to sub-LIBOR in commodity risk management situations and strongly prefer no restrictions to apply hedge accounting also in such situations.

Question 5.

We do not agree that a prepayment option as reflected in B23 and BC69 is not eligible to be designated as a hedged item. This exclusion would not align with the economic risk management activities of entities that are considering prepayment options in its business and, accordingly, does not properly reflect the effect of a prepayment option in accounting. We agree with EFRAG's response that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item.

Question to constituents

EFRAG understands from its initial consultation activities that, while the proposals are considered appropriate for single items, it may not be the case for prepayment options in the context of portfolios. We understand that, at a portfolio level, it may be possible to separately identify the risk component and facilitate the measurement of hedge effectiveness. Do constituents agree this assessment? If so, please provide examples of the instances where an alternative treatment is appropriate.

We refer to our answer to question 5 and we would like to emphasize that our answer also extends to macro hedge accounting, although we are aware that macro hedge accounting is not yet addressed in the ED by the IASB.

Question 6.

We agree with EFRAG's response in respect of the hedge effectiveness requirements but we also note that paragraph B31 requires that any offset between the hedged item and the hedging instrument is 'other than accidental' and paragraph B30 states that the hedging relationship will 'minimize the expected hedge ineffectiveness'. We have serious concerns that the phrases 'other than accidental' and 'minimize the expected hedge ineffectiveness' when read together could be narrowly interpreted and hence be considered as a rule-based approach in respect of assessing hedge effectiveness. This can result in unintended consequences and can be inconsistent with the objective of the hedge effectiveness assessment (i.e. the removal of the 80-125 per cent bright line).

Question 7.

We agree with EFRAG's response regarding the notion of rebalancing hedging relationships noting that we do not believe that an entity should be required to rebalance the hedging relationship. We believe that the ED is not clear on when rebalancing is required, when it is acceptable not to do so and when the criteria regarding the proposed requirement are met as well as what the consequences are when an entity does not rebalance. We also wonder whether the requirement as reflected in question 7(a) is necessary when an entity proactively rebalances its hedge relationship. Accordingly, we support EFRAG's response that the notion of rebalancing is not yet well understood and we believe that the IASB should clarify this in finalizing the proposals.

Question 8.

We do not agree that an entity should not be permitted to discontinue hedge accounting. Initiating hedge accounting is voluntary and we do not understand why vice versa discontinuation should be prohibited. In addition, please note that the possibility of discontinuing hedge accounting under the current macro hedge accounting model is essential and should also be considered when proposing the macro hedge accounting model. We agree with EFRAG's remark that – referring to response to question 7 – there are a number of concerns regarding the complexity, operationally and administrative burden around the rebalancing/discontinuation and that it is important that the IASB clarify this in finalizing the proposals.

Question 9.

We agree with EFRAG's response.

Question 10.

We agree with EFRAG's response.

Question 11.

We agree with EFRAG's response, noting that – in accordance with our response to question 5 – we adhere that the proviso in paragraph 36(e) of the ED with regard to prepayment options should be deleted, also considering further steps to a revised macro hedging model.

Question 12.

We agree with EFRAG's response.

Question 13.

We agree with EFRAG's response.

Question to constituents

Do constituents believe that the proposed disclosures meet the objective of providing transparency into an entity's hedging activities?

Although we acknowledge that in general the proposed disclosures will help users to understand the overall risk management strategy of an entity as well as to understand results of both hedged and unhedged positions, we believe that new hedge accounting disclosures should not provide much more quantitative information in order to avoid users being overwhelmed by too much detailed information rather than a comprehensive disclosure that reflects an entity's risk management and risk appetite.

Question 14.

We agree with EFRAG's response.

Question to constituents

Do you believe the proposals will be useful in addressing problems in practice ? If not please explain.

From its initial consultation activities, EFRAG has understood that this issue may be broader than what the IASB had considered in finalising the proposals in the ED. Are there any other

issues with the 'own use' exception that you are aware of? If so, what solution you believe would be appropriate to resolve the issue(s)?

The practical issues and the need to align risk management and accounting in commodity management strategies require a re-assessment of the 'own use' approach. We believe the ED does not yet address this properly and we are in favor of such re-assessment.

Question 15.

We agree with EFRAG's response.

Question to constituents

When economic hedges of credit risk do not qualify for hedge accounting for the sole reason that the credit risk component cannot be reliably measured, the IASB has considered, but rejected, accommodating hedge accounting using an alternative method. Which of the three proposed alternative methods considered by the IASB do you believe would be appropriate and why?

We would consider that no specific alternative approach guidance is needed when the credit risk would qualify for hedge accounting which we support if that is in accordance with an entity's risk management strategy. If hedge accounting will be ruled out anyway, we believe that the third alternative method is most appropriate as this alternative accounting method best reflects the economic hedge activity.

Question 16.

We agree with EFRAG's response noting that at least the effective date of the ED should be aligned with the new macro hedge accounting to be exposed.