



08/03/2011

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
Sent electronically to [www.iasb.org](http://www.iasb.org)

## **IASB Exposure Draft ED/2010/13 Hedge Accounting**

Dear Sir/Madam,

The Swedish Bankers' Association appreciates the opportunity to respond to the International Accounting Standards Board's (IASB's) Exposure Draft ED/2010/13 Hedge Accounting (ED). This letter represents the views of the Swedish Bankers' Association (the Association/We/Our).

The Association supports IASB's efforts to reduce the complexity in IAS 39 Financial Instruments and we believe that the board with the ED has addressed inconsistencies and weaknesses in the current standard. To align hedge accounting more closely with risk management practices will indeed provide more useful information for investors and others. The proposals also establish a more objective-based approach to hedge accounting. However, as not all the elements of the new hedge accounting model are in place, it is not possible for us to validate the proposals in the ED in full. As you are aware, banks generally apply open portfolio macro hedging in order to manage their risks, whilst the ED only focuses on hedge accounting in the context of groups of items that constitute gross or net positions in closed portfolios. We therefore look forward to the opportunity of making a final assessment of the whole revision of hedge accounting rules, including portfolio hedging. Given the importance of macro hedging, we believe that the board should not finalize a standard on the general hedge accounting model, before developing a model for macro hedging.

We support the European Financial Reporting Advisory Group's (EFRAG's) position in their "draft comment letters" to the ED published on 20 January and the supplement to their draft comment letter published on 23 February, 2011. We explicitly support EFRAG in their position concerning the "sub-LIBOR issue". In this comment letter, we have chosen to just highlight those issues where we have a different opinion compared to the opinion that EFRAG has presented in their draft



comment letters.

One issue of our concern is when an entity should have the possibility to discontinue hedge accounting. EFRAG state that they agree "that an entity should discontinue hedge accounting prospectively only when a hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria". EFRAG also agrees that "an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy, and that continues to meet the qualifying criteria".

In the ED the board proposes that the entity would discontinue the hedging relationship only when it no longer reflects the risk management strategy and/or all other qualifying criteria are no longer satisfied. If this were to be interpreted strictly entities would be prevented from operating dynamic hedging strategies.

Therefore we advocate a more relaxed framework where both use of internal contracts and dynamic hedging strategies are feasible. The reasons for this are that banks often use internal hedges in their risk management transactions. Therefore we believe that to fully reflect banks risk management strategies, also internal contracts should be eligible for hedge accounting. A further argument for a more dynamic approach is that entities need a certain level of flexibility, which enables them to discontinue relationships and to de-designate and re-designate hedging items periodically.

Another issue of our concern is that we believe it should be possible to designate a layer component of a contract that includes a prepayment option as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk. EFRAG hasn't expressed a position on this matter.

The reasons for our position are the following. In a one to one relationship, we can understand the reasoning developed under BC 69, because the behavior of a loan with an embedded prepayment option is not predictable, so the whole range of possibilities must be included in the option valuation. However, the situation is different with groups of hedged items and portfolios. In a portfolio, prepayment risk is assessed on a universal basis to take into consideration the behavior of all its constituents. That means that under a measurable threshold, based on historical data, the value of the prepayment option is nil, whatever the moves of yield curves.

Under this approach, the bottom layer of the whole population of loans behaves as it has no prepayment option embedded. In these circumstances, the value of the prepayment option is nil.



SWEDISH BANKERS' ASSOCIATION



Kerstin af Jochnick



Mats Stenhammar

cc: EFRAG.