



Sue Lloyd
International Accounting Standards Board
30 Cannon Street
London
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20 December, 2012

Dear Sue,

Hedge Accounting Review Draft (RD)

We are grateful to the IASB for making the RD available to its constituents. This letter summarises the main comments of the Financial Reporting Council (FRC) on the RD. This letter supplements our joint letter¹, to the IASB, with the Accounting Standards Committee of Germany containing our detailed comments on specific aspects of the model.

In this letter, we have limited our comments to those areas where there may be difficulties with practical application of the general hedge accounting model or drafting points.

We believe that the most significant issue for UK banks is that some of the Implementation Guidance (IG) that exists in IAS 39 *Financial Instruments: Recognition and Measurement* has not been carried forward to IFRS 9 *Financial Instruments*. UK banks use cash flow hedge accounting for macro hedging using IG F6.1. We regard this as a fatal flaw in the RD. We would encourage the IASB to re-consider this and recommend that the IASB carry forward the relevant guidance to IFRS 9.

Other areas where we believe the requirements in the RD could be improved relate to:

- a. Hedge ratio - operational difficulties around application on a portfolio basis.
- b. Re-balancing - lack of clarity around when it is required.
- c. Basis risk in cross currency interest rate swaps – paragraph 6.5.5 of the RD could be read as a total prohibition on using cross currency interest rate swaps as synthetic instruments. We do not believe that that was the intention of the drafting.

The FRC has been working with EFRAG to field test the general hedge accounting requirements in the UK. We understand that EFRAG has provided IASB staff with the results of that testing across Europe. The results of that testing include further details on areas of the ED which may be difficult to apply in practice.

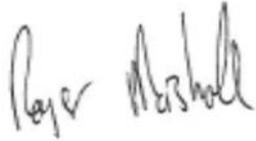
¹ The letter can be accessed at [http://www.frc.org.uk/getattachment/64c77864-65dc-40c7-b275-9d5378996f41/FRC-ASCG-initial-views-on-IASB-hedge-accounting-review-draft-\(November-2012\).aspx](http://www.frc.org.uk/getattachment/64c77864-65dc-40c7-b275-9d5378996f41/FRC-ASCG-initial-views-on-IASB-hedge-accounting-review-draft-(November-2012).aspx)

Finally, before finalising the general hedge accounting model, we would like the IASB to consider whether there are any steps that can be taken to simplify the hedge accounting model both in terms of the number of restrictions in the model as well as the drafting.

As currently drafted, some of the requirements in the RD are not always easy to understand and apply. We would be happy to discuss in more detail the specific areas where we consider that improvements could be made. IFRS 9 was intended to be a standard that is less complex than IAS 39 but it is not clear that this will be the case once all parts of the standard are complete. Whilst we recognise the hedge accounting and financial instruments accounting more generally are complex areas, we believe that it is important that IFRS 9 as a whole is drafted so that it is capable of being understood and applied by corporate entities as well as banks.

If you would like to discuss these comments, please contact Deepa Raval on 020 7492 2424.

Yours sincerely



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Cc. ANC, ASCG, EFRAG, OIC