Federation of European Accountants
Fédération des Experts comptables Européens

Ms. Françoise Flores
Chair
Technical Expert Group
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: commentletter@efrag.org

4 March 2011

Ref.: BAN/PRJ/LFU-SKU/IDS

Dear Ms. Flores,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft *Hedge Accounting*

(1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft *Hedge Accounting* (the "ED").

(2) Overall, in line with EFRAG, we believe that the ED provides a number of improvements that should make hedge accounting more "accessible" and we welcome the idea of the proposed objective of hedge accounting to move towards closer alignment with risk management activities. Saying that, given the variety of hedging and risk management practices, we consider it necessary that the IASB strikes the right balance between closer alignment with common hedging practices and clear principles ensuring consistency, faithful representation and measurement of real effectiveness. As proposed in paragraph 5 below, if there are significant differences between risk management and hedge accounting, these should be disclosed. The establishment of clear principles in the body of the standard would ensure proper application and would mean that there is no need for specifying rules dictating which hedging practices should or should not be allowed.

(3) In general, we agree with EFRAG that the proposals of the ED remove a number of rule-based restrictions to hedge accounting in IAS 39 *Financial Instruments*: improvements relating to assessing hedge effectiveness, the possibility to designate derivatives, risk components and net positions as hedged items, and the possibility to apply hedge accounting to components of non-financial items. We agree that these proposals make the hedge accounting model more flexible, and will help increase the appropriate use of hedge accounting.

(4) EFRAG notes that although the proposals have introduced new complexities, particularly in the rebalancing of hedge relationships and the treatment of the time value of options (acknowledging that economic hedging and risk management activities are not straightforward and reporting for these activities has an inherent level of complexity), the benefits of these approaches outweigh the cost and complexity. We consider it merits exploring whether complexity can be further reduced, e.g. by optional application of the more complex proposals.

(5) Some activities undertaken in the context of risk management would never meet the proposed hedge accounting requirements although they mitigate risk or the reporting entity might elect not to apply hedge accounting. Accordingly, in our opinion, where relevant and material, the differences between risk management practices and hedge accounting should be subject to disclosure as such information is helpful and valuable to the users of the financial statements. On the other hand, we support a reasonable reduction of the proposed disclosures suggested in the ED as we detail in our response to Questions 1 and 13 in the Appendix to this letter.

(6) We believe that there are still some areas where further clarification is needed and there are elements of the ED that might be subject to further improvement. We present a summary of our concerns below (we have included also where relevant our comments on the concerns raised by EFRAG in their draft covering letter).

Interdependencies with other phases of IFRS 9 and related projects

(7) Like EFRAG, we believe that there is a need to consider not only the interdependencies of the proposals in the ED with the other phases of the IFRS 9 project and other related IASB projects (e.g. insurance contracts, financial statement presentation) but also the outcome of the recent IASB's Request for Views on the Effective Dates and Transition Methods (see our response to Question 16).

(8) Indeed, there is a need for a "holistic" approach and we agree with EFRAG that the IASB should consider the entire "package" of proposals before finalising the resulting standards, including the consideration of the pending proposal on macro-hedging with the proposals of this ED. We agree with the issue highlighted by EFRAG on the need to gain a better understanding of the IASB's direction in respect of macro-hedging before being able to provide comprehensive comments on the proposals relating to groups of items. Consequently the IASB should not finalise a standard on the general hedge accounting model before deliberations on the pending model for macro-hedging.

Eligibility of instruments as hedging and hedged items

(9) There are specific issues regarding the eligibility of certain instruments as hedging instruments and hedged items, as listed by EFRAG. We believe that these can be categorised as concerns of where the proposals in the ED might not be following the proposed intention of the new hedge accounting that it should be more closely aligned with risk management activities. We comment on these specific issues separately and in detail in our response to the specific questions of the ED and they refer to the following areas:

- The non-eligibility of investments in equity instruments at fair value through Other Comprehensive Income (Question 1);
- The non-eligibility of net written options for hedge accounting (Question 1);

- The issue of the sub-LIBOR is critical, in particular as the eligibility of a benchmark component in hedging a debt instrument with a negative indexation could address the current carve-out problem (as detailed in Question 4).

Our responses to the questions in the Invitation to comment of the ED as well as to additional questions to constituents posed by EFRAG are included as an Appendix to this letter.

For further information on this letter, please contact Leyre Fuertes, Project Manager from the FEE Secretariat on +32 (0) 2 285 40 76 or via email at leyre.fuertes@fee.be.

Yours sincerely,

Philip Johnson
President

Objective of hedge accounting

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

(10) In line with EFRAG, we agree with the proposed objective to align hedge accounting closer with risk management activities since it better reflects the risk exposures the entity is facing.

(11) However, we believe that the proposed restriction of hedge accounting to risks that affect profit or loss can be in conflict with the proposed objective and therefore the arguments should be reassessed since only the full Statement of Comprehensive Income (OCI) provides the full picture of the performance of a particular entity. In principle, we support the extension of hedge accounting for items that affect OCI, mainly on the basis that not allowing to do so could be inconsistent with the direction of the proposed objective to align hedge accounting closer with risk management practices. As such, it is questionable why this type of equity instruments should not be allowed for hedge accounting if in practice this type of hedging (particularly focused on removing the foreign exchange risk from equity positions in OCI) is done by risk management.

(12) There is a need for clear principles for hedge accounting both to ensure consistent proper application and to minimise rules dictating which hedging practices should or should not be allowed. In our opinion the effective part of the remeasurement of the hedging instrument in a hedge of OCI exposures should be recognised in OCI, whereas the ineffective part should be recognised in profit and loss.

(13) In addition, the fact that the ED does not allow net written options for hedge accounting could represent an issue if these can be used in practice as part of an entity's risk management activities. The principle should be that, while not in all cases net written options will form part of risk management practices, there may be circumstances where those options may well form part of valid and well measurable risk management strategies. In the latter cases net written options should be allowed for hedge accounting if the objective is to align hedge accounting more closely with risk management practices. The aim should be to keep the principle of hedge accounting as simple as possible and reduce the number of rules.

(14) Regarding EFRAG's point that further work is needed in terms of the eligibility of embedded derivatives, we agree that more clarity is needed in this area of the proposals.

(15) We support, like EFRAG, the proposed approach in the ED that hedge accounting should not be mandatory for all risk management activities of an entity and be based on voluntary designation but also de-designation of hedge relationships.

(16) EFRAG has argued (paragraph 5 (d) of EFRAG's draft comment letter) that it would not be meaningful to make hedge accounting mandatory because many activities undertaken in the context of risk management would never meet the proposed hedge accounting requirements although they mitigate risk. We suggest that, where relevant and material, a difference between risk management practices and hedge accounting should be subject to disclosure as such information is helpful and valuable to the users of the financial statements.

(17) EFRAG highlights (paragraph 6 of EFRAG's draft comment letter) the importance of ensuring that there is a disciplined designation process to avoid hedge accounting becoming an unrestricted accounting choice. In our view, besides the strict requirement for prospective application, presenting the disclosure suggested above on the difference between risk management practices and hedge accounting would address this concern too.

Instruments that qualify for designation as hedging instruments

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

(18) Like EFRAG, we agree with the proposal that non-derivative financial assets and liabilities measured at fair value through profit or loss should be eligible hedging instruments.

(19) Moreover, similarly to EFRAG, we are of the opinion that both non-derivative instruments other than those at fair value through profit and loss and non-financial instruments measured at fair value through profit and loss could be eligible as hedging instruments. The main reasoning for this is that not allowing them as eligible hedging instruments would be inconsistent with the objective that hedge accounting should be aligned more closely with risk management practices. However, we suggest that these proposals are considered preferably as a separate project which could deal also with alignment of IFRS 9 and IAS 2, including inventory hedging.

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?

(20) In our view, there does not seem to be an inconsistency as highlighted by EFRAG (paragraph 16 of EFRAG's draft comment letter) between the "irrevocable" designation at initial recognition of a financial instrument as at fair value through profit and loss and the "impossibility" to revoke that election subsequently when such instrument would be designated at fair value through profit and loss to serve as a hedging instrument if that were to be in line with a change in that entity's risk management strategy. There are two points to note:

- it is not 100% irrevocable since it needs to follow the applicable business model for managing financial assets as stated in IFRS 9 paragraph 4.4;
- the higher flexibility seems not to be inconsistent with the relatively stable approach on initial classification.

Derivatives that qualify for designation as hedged items

Question 3

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

(21) We support the proposals and agree with EFRAG (as detailed in paragraphs 21 and 22 of EFRAG's draft comment letter) that a synthetic exposure may be designated as a hedged item, particularly if the objective is to move closer towards a more principle-based approach (to enable entities to reflect their risk management strategy) and a move towards some "relaxation" of the current rules-driven hedge accounting.

Designation of risk components as hedged items

Question 4

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (i.e. a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

(22) We support the proposals and agree with EFRAG that an entity should be allowed to designate as a hedged item changes in the cash flows or fair value of an item attributable to a specific risk or risks (i.e. a risk component), provided that the risk component is separately identifiable and reliably measured. In line with risk management practices, we support the removal of this restriction to hedge accounting that exists in IAS 39.

(23) We stress the importance of the requirement for the risk component to be separately identifiable and reliably measurable. In some cases, the ED as currently drafted might (incorrectly) eliminate the reporting of ineffectiveness. We are concerned that the drafted guidance is not sufficiently clear to ensure consistency. This concern is particularly relevant in the case of industries other than financial services, e.g. crude oil component in the fuel purchase contract (see the example provided in paragraph B16(b) of the ED and the concerns expressed in the Alternative View in AV2). The definition/identification of the component should not be arbitrary and the applied risk management practice should be properly disclosed.

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.

(24) Regarding EFRAG's concern that non-contractually specified inflation cannot be designated as a risk component (paragraph 31 of EFRAG's draft comment letter), we agree that this issue could create inconsistencies with risk management practices.

(25) Regarding the issue of sub-LIBOR within the context of the general hedging model, our view is that if more flexibility is provided (i.e. with the eligibility of a benchmark component in hedging a debt instrument with a negative indexation), then the current carve-out problem could be avoided. As such, this is likely to be a critical point for European banks and an important issue for the IASB to address.

(26) There might be a resulting concern if the sub-LIBOR is below zero. However, it should be possible to arrive at a reasonable solution for this limited problem, either in this proposal or in the following ED on macro-hedging.

Designation of a layer component of the nominal amount

> **Question 5**
>
> (a) Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?
>
> (b) Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?

> **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.

(27) We agree that permitting designation of a layer of the nominal amount of an item as the hedged item is a positive step. However, this might not work in all cases for net margin hedging, in particular with prepayment risk. In our view, this is a really important point when it comes to macro-hedging, since in many circumstances the properly defined hedged item will not be significantly affected by the prepayment risk.

Hedge effectiveness requirements to qualify for hedge accounting

> **Question 6**
>
> Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

(28) Like EFRAG, we welcome the removal of the 80-125% bright line test for assessing and measuring hedge effectiveness and agree with the hedge effectiveness requirements as qualifying criteria for hedge accounting.

(29) However, more clarity should be provided on how to interpret 'other than accidental offsetting' as included in B31 of the ED in connection with 'minimise the expected hedge ineffectiveness' as included in B30. We are concerned that if these are narrowly explained, the approach in respect of assessing hedge effectiveness is likely to be considered rule-based and even stricter compared to the existing thresholds. This may result in unintended consequences and may be inconsistent with the objective of the hedge effectiveness assessment.

(30) Regarding EFRAG's concerns that the proposed guidance may create inconsistencies between risk management and accounting (as explained in paragraph 54 of EFRAG's draft comment letter), we agree with the IASB principle that all inefficiencies should be captured in profit and loss.

(31) The proposals are clear in that any remaining gain or loss (i.e. hedge ineffectiveness) should be recycled from OCI into profit or loss. However, in our view, the gross presentation in OCI seems quite complex and should be simplified.

Rebalancing of a hedging relationship

Question 7

(a) Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?

(32) In general, we are of the opinion that rebalancing of the hedging relationship should be allowed but not required.

(33) We agree with EFRAG that the notion of rebalancing is not well understood. The proposals on mandatory rebalancing of the hedging relationship appear complex and rule based.

(34) In summary:
- (i) the principle of re-balancing should be more clear;
- (ii) our general view is that accounting should not drive management practices, i.e. force entities into material transactions, e.g. having to purchase new derivatives;
- (iii) the proposals in the ED are not clear regarding the consequences of not rebalancing;
- (iv) the proposals should allow a situation when the hedge relationship is being voluntarily re-balanced up-front in the anticipation of probable ineffectiveness;
- (v) drawing the line between the re-balancing and a new hedging strategy can prove challenging.

(35) Considering our response to Question 7 (a), if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also pro-actively rebalance the hedge relationship but should not be required to do so.

Discontinuing hedge accounting

Question 8

(a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

(36) In our view, an entity should be allowed to apply and discontinue applying hedge accounting similar to the current IAS 39 situation. The prohibition of discontinuation of a hedging relationship appears complex, rule based and to be easily circumvented.

(37) The discontinuation of hedge accounting (also when a hedging relationship still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet the qualifying criteria) should remain a voluntary option as under IAS 39 and be treated like any other type of accounting policy. In that way we can ensure “discipline” through disclosures as highlighted in paragraph 5 of our covering letter.

Accounting for fair value hedges

Question 9

(a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?

(38) Regarding the recognition of the gain or loss on the hedging instrument and the hedged item for a fair value hedge, in our opinion a “one step” approach would be appropriate, i.e. no recognition in OCI with the ineffective portion of the gain or loss recognised directly in profit or loss. Our main reasoning for this is that it would seem less complex to adopt such a “one step” approach while the effect in the profit or loss and net effect in OCI remain the same.

(39) We agree with EFRAG that the new presentation requirements may substantially increase the number of line items presented on the face of the statement of financial position. For this reason, we would favour the approach suggested by EFRAG to aggregate all fair value hedge adjustments of the hedged items into an aggregated amount that would be reported on the face of the statement of financial position with notes disclosure of its component structure by balance sheet lines.

(40) We believe that linked presentation should not be allowed for fair value hedges and that any ineffective portion of the gain or loss should be directly recognised in profit and loss. In our view the suggested presentation – additional line items on the balance sheet - would not provide much added value for the users and would create operational issues for the preparers due to the increased number of accounting entries required. We believe that the presentation would be sufficient in the notes to the financial statements.

Accounting for the time value of options for cash flow and fair value hedges

Question 10

(a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (e.g. like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (i.e. the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?

(41) We agree that when options are used for hedging, the time value of the option is a cost associated with the hedge and should be part of hedge accounting. Therefore, we support the proposal to defer the time value of options in OCI as this is where other effects of the same hedge are recognised.

(42) In our view preparers should follow closely their risk management strategy when accounting for options. Although the different ways to treat initial time value of options might add to complexity, we are of the view that the principle should be that the transfer from OCI to the profit and loss is done on a rational basis.

(43) The application of this principle on the transaction related hedged items would result in recognition of the initial time value in the same period as the hedged item.

(44) We agree that the measurement of the hedged item should be based on an option that has critical terms that perfectly match the hedged item.

Hedges of a group of items

Eligibility of a group of items as the hedged item

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

(45) Aggregation of exposures of a group including offsetting items is a common risk management practice as it reduces the number of external derivative transactions needed for risk hedging. The ability to represent the hedging of groups that includes offsetting positions (net hedging) is important and should be reflected in the standard. We support the proposals that all eligible items should individually be eligible hedged items and be managed on a group basis.

(46) Also when hedging a net position, the overall group of items that make up the net position should be identified as the hedged item (see also response to Question 5).

(47) However, the Board should review the restriction that the cash flows of the offsetting hedged items in a cash flow hedge must affect profit and loss in the same interim period, since this might exclude perfectly valid hedging strategies.

Presentation

Question 12

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (e.g. in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

(48) Like EFRAG, we agree with the proposals regarding the presentation in profit or loss of the effects of hedge accounting for groups of items.

(49) However, similarly to EFRAG, we disagree with the way gains or losses from fair value hedges are proposed to be presented as it is complex and does not reflect the risk management substance of such transactions. We support the aggregation of all fair value changes into a single item in the statement of financial position and providing details in the notes.

(50) Furthermore, preparers should be encouraged to provide more detailed disclosures when hedged net positions are so significant that separate presentation becomes relevant for proper understanding of their financial position and risk management practices.

Disclosures

Question 13

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

Question to constituents

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

(51) 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 un-hedged positions, we believe that new hedge accounting disclosures should not provide much more quantitative information in order to prevent users being overwhelmed by too much detailed information rather than a comprehensive disclosure that reflects entities' risk management and risk appetite.

(52) While disclosure is an essential part of robust financial statements when applying hedge accounting, some disclosures appear excessive (particularly in paragraph 46 of the ED). We believe reasonable aggregation of data would reduce the burden and also give more relevant information for users.

(53) It is unclear what is meant by exposure, whether it is expected forecast transactions or only existing commitments. Disclosure of information regarding the notional amount and key terms of derivative positions by risk category and hedge type should be sufficient to provide adequate information as to the nature and extent of an entity's risk management activities.

(54) We believe that some of the information required by the ED to be presented on the face of the financial statements should be presented in the notes. (See also our response to Question 9).

(55) Except for the critical disclosure mentioned in paragraph 16 of this letter (i.e. disclosing where relevant and material a difference between risk management practices and hedge accounting), we are not proposing any additional disclosures that should be required.

Accounting alternatives to hedge accounting
Accounting for a contract for a non-financial item that can be settled net in cash as a derivative

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

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).

(56) We agree with the proposal, since it will enable some preparers to better reflect their risk management strategies, although the use of these proposals will be quite limited.

Accounting for credit risk using credit derivatives

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

(57) Like EFRAG, we believe that where the hedged item is credit risk, hedge accounting should be permitted provided that the hedging relationship meets the general requirements for qualification and is consistent with the risk management activities. Such hedging could be particularly relevant in the case of treasury bills valued at amortised cost with credit default swaps as hedging items.

(58) We would like to note that in the financial liabilities part of IFRS 9 the IASB believes that the credit risk part of own debt can be separated. The arguments in the ED are not consistent when used to disallow credit risk from hedge accounting, whilst allowing it under the fair value option for liabilities.

(59) We acknowledge that meeting the principles may be difficult to achieve in practice. Therefore, we support the IASB in its efforts to investigate further the development of the proposed accounting alternatives.

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?

(60) We 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 and properly measurable. If hedge accounting is ruled out, we believe that the third alternative method is most appropriate as this alternative accounting method best reflects the economic hedge activity.

Effective date and transition

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

(61) As we stated in our letter on effective dates and transition methods issued to the IASB on 10 February 2011, we are of the opinion that the mandatory effective date for the implementation of all phases of IFRS 9 and the other major projects currently under consideration of the IASB (*Revenue from Contract with Customers, Leases including accounting by the lessor, Insurance Contracts, Financial Instruments (IFRS 9),* and *Fair Value Measurement*) should be at least 36 months from their issuance. Assuming that the last standard will be issued in June 2011, we agree with EFRAG that the earliest mandatory adoption date should be 1 January 2015.

(62) As we also stated in our letter on effective dates and transition methods, we think that an early application of IFRS 9 should be permitted, however it would be important to mandate a collective early adoption for IFRS 9, *Revenue from Contract with Customers, Leases, Insurance Contracts and Fair Value Measurement*.