Financial Reporting Council

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

20 February 2013

Dear Hans,

Interaction between macro hedge accounting and general hedge accounting

The UK Financial Reporting Council (FRC) has been considering the accounting for macro cash flow hedges following the publication of the IASB's review draft on general hedge accounting and in light of recent developments in Europe and; at the January IASB meeting. This letter sets out the FRC's suggestions on how the IASB might proceed.

We understand the IASB's reasons for not carrying forward into IFRS 9 *Financial Instruments,* the implementation guidance in IAS 39 *Recognition and Measurement* that relates to macro cash flow hedge accounting. We have performed limited outreach with UK banks and some banks do consider the lack of guidance to be problematic.

Fundamentally, we believe that it is important for UK banks to be able to continue with their existing macro hedge accounting practices until such time as the IASB completes its macro hedging project. Therefore, we would recommend that:

a) **Until the macro hedging standard is finalised, IAS 39 is retained as the macro hedge accounting standard for both fair value hedges and cash flow hedges.** Under this approach, all the relevant requirements in IAS 39 and the associated implementation guidance relating to macro hedge accounting would be retained.

b) **The scope of the macro hedging project includes both fair value hedge accounting and cash flow hedge accounting.** We note that IASB discussions to date on the macro hedging project have focused on macro fair value hedging for interest rate risk. We believe that including macro cash flow hedging would allow the IASB more time to more fully consider the accounting without further delaying finalisation of IFRS 9.

c) Define the term macro hedging in IFRS. We believe that it would be helpful for the IASB to consider a definition as part of the development of its discussion paper on macro hedging.

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For information, we also attach a copy of our response to the EFRAG Draft Comment Letter on the impact of the review draft general hedge accounting on macro hedge accounting.

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

Yours sincerely

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Financial Reporting Council

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20 February 2013

Dear Françoise,

Impact of the Review Draft on general hedge accounting on macro hedge accounting

Thank you for providing the Financial Reporting Council (FRC) with the opportunity to comment on your draft comment letter (DCL) to the IASB on the impact of the Review Draft (RD) on general hedge accounting on macro hedge accounting.

We support EFRAG's efforts to highlight to the IASB that there is an issue, requiring a solution, around accounting for macro hedges in the RD. However, we disagree with some of the content of the DCL. We believe that the EFRAG DCL covers a range of issues but does not focus on the specific issue at hand.

Before finalising the letter to the IASB, we would recommend that EFRAG de-couple the various points. In our view, it is important to identify the specific areas which are considered to be fatal flaws as well as noting the extent to which these are issues across the various jurisdictions in Europe.

We have written to the IASB to set out our views and a copy of that letter is attached.

In addition, we would like to comment on two specific points raised by EFRAG.

Practice in the UK
We have performed limited outreach with UK banks and other groups and found a divergence in views. Some UK banks are concerned that without the implementation guidance that exists in IAS 39 (IG F.6) being carried forward to IFRS 9; or without illustrative examples, they will no longer be able to continue with existing practice. Other banks believe that they can continue without the need for guidance.

EU carve out
Paragraph 4 of the EFRAG DCL makes reference to the possibility that the EU carve out may affect other types of hedges. We are not aware of this being an issue in the UK. UK banks mainly use macro cash flow hedging for interest rate risk rather than fair value hedging.

The issue of the carve out is likely to be a recurring theme in future discussions relating to macro hedging. Therefore, we recommend that EFRAG, at an early stage and well before endorsement discussions commence, prepare an analysis of the:

- relationship between macro hedging and the carve out;
- paragraphs in IAS 39 that are the subject of the carve out;
- types of hedge accounting used in practice that are affected by the carve out; and
- extent of use of the carve out across jurisdictions in Europe.

This will help inform future discussions on macro hedging including those relating to endorsement.

Overall, we believe that the general hedge accounting model is an improvement to the existing model. Therefore, it is important to find a practical solution to the issue without further delays to the timetable for finalisation of the hedge accounting phase of IFRS 9.

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

Yours sincerely

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