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**Chairman**

**JH  
n°62**

Paris, the 7<sup>th</sup> March 2011

IFRS Foundation / IASB

30 Cannon Street

London, EC4M 6XH

United Kingdom

Re : Exposure Draft 2010/13 Hedge accounting

Dear Sir,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure Draft.

The ED is the third phase of the IASB's project to replace IAS 39, dealing with hedge accounting. We note that the hedge accounting phase is itself split into two sub-phases: a general model as proposed in the ED covering individual and closed portfolio hedging relationships and a specific model for open portfolio hedging relationships (referred to as macro-hedging in our comment letter) that remains to be discussed.

Regarding the general model proposed by the ED, we welcome the comprehensive review of the current IAS 39 requirements. Namely, IAS 39 is rule-based and does not properly reflect certain economical hedge relationships in the financial statements. We globally support the objective to align more closely hedge accounting with risk management.

However, the IASB's phased approach –in spite of welcome announcements about the objective of a better reflection of risk management practices- is creating uncertainties on the final framework for hedge accounting, since these two sub-phases are interrelated. Macro-hedging is a strategic risk management activity for many financial entities (banks, insurance companies). We are therefore concerned that some ED proposals, such as restrictions on portfolios containing financial instruments with prepayment options, could preclude financial entities from applying an appropriate macro-hedge accounting that suits their risk management activities. As a consequence, we will not be able to fully support the proposal on the first sub-phase of hedging without having a clear understanding of the Board's project regarding macro-hedging. We believe that the IASB should not finalise a standard on hedging before having considered feedback on a model for macro-hedging.

More precisely regarding the proposed general model, we agree with the following proposals :

- Hedge effectiveness: we agree with the removal of the quantitative 80-125% hedge effectiveness threshold, the introduction of a principle-based qualifying criterion and a qualitative or quantitative assessment depending on the complexity of the hedge relationship. Moreover, we agree with the removal of the retrospective hedge effectiveness test.
- Hedged items: we agree with the amendment made on eligible hedged items in order to better reflect risk management activities (aligning eligible portions of non financial items with those of financial items, extending the use of layers, allowing the documentation of a hedge relationship on a net basis,...)
- Options : we agree with the treatment of time value of options as a cost of hedge, avoiding undue volatility in profit or losses. The IASB should confirm that this treatment is also available for the interest component of forward derivatives.

Nevertheless, we disagree with the following proposals :

- The prohibition for designating as hedged item exposures that will not impact profit or loss such as equity instruments designated at fair value through OCI. This prohibition is not consistent with the ED objective to align the accounting with risk management (such as the hedge of foreign exchange risk of equities). Moreover, this prohibition is directly linked to an inappropriate treatment under the phase I of IFRS 9 which should be amended as mentioned in our comment letter on that phase;
- The prohibition or difficulties for qualifying as hedged items risk components of financial instruments such as non contractual inflation or credit risk which is contradictory with the principles proposed for non financial items;
- The prohibition for designating a risk component that exceeds the total cash flows of the hedged item (i.e. the sub-libor issue);
- Regarding cash flow hedges of portfolios, the condition on cash flows offsetting in the same period which is too restrictive and does not encompass actual risk management practices.

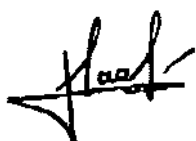
Furthermore, some proposals seem complex and could raise operational difficulties, notably in the following areas:

- The detailed treatment and application guidance regarding the time value of options could be simplified;
- The distinction between rebalancing and discontinuation is not clearly defined and the follow up of several mandatory rebalancings might be burdensome;
- The new accounting mechanism for fair value hedges based on a two-step approach (OCI and transfer in profit or loss) does not seem useful.

Our detailed comments on the Exposure draft are set out in the Appendix I to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Haas', with a stylized flourish extending to the left.

Jérôme Haas

## **Appendix I**

### **Detailed comments**

#### ***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?***

We agree with the objective to reflect in the financial statements the effect of transactions entered into for risk management purposes.

The current accounting rules (IAS 39) raise recurring difficulties for preparers of financial statements, which prevent them from appropriately reflecting in their financial statements the economic effects of hedging transactions. Some financial instruments used for risk management purposes are currently creating volatility in profit or loss whereas they do constitute an effective economic hedge of a specific risk exposure. Non-GAAP measures or detailed disclosures on the impact on their profit or loss of some economic hedges not eligible for hedge accounting are the only alternatives found by some entities to reflect their actual hedging results, which is not satisfactory. The current IAS 39 hedge accounting rules do not allow the economic offset of significant hedging activities to be reflected in the financial statements for both financial and non-financial entities. In this respect, IAS 39 hedging rules create confusion and misunderstanding for users of financial statements.

Therefore, we hope that the proposed objective to align hedge accounting with risk management activities will avoid most of the drawbacks of IAS 39. Moreover, we consider that a principle-based approach is better than a rule-based approach, such as IAS 39 current requirements. Nevertheless, we consider that, even under this principle-based approach, it would be necessary to adapt the risk management documentation to make it match with the eligible hedge relationships as defined in the ED (e.g. hedge of future dividend from a subsidiary).

However, we disagree with the restriction to apply hedge accounting only for financial instruments hedging exposures that could affect profit and loss. Some exposures are, according to IFRS, only affecting equity or OCI without being recyclable in profit or loss. Nevertheless, these exposures are real economic exposures that affect the net assets of the entity and thus the shareholders wealth. Therefore, the ED will still discourage entities from hedging some economic exposures or will create undue volatility in profit or loss.

For instance, the ED precludes from designating equity instruments measured at fair value through OCI as hedged items because the gain or loss is not recyclable in profit or loss. Entities may justifiably mitigate this volatility in OCI by contracting hedging instruments. This prohibition is not consistent with risk management. If IFRS 9 phase I was maintained, it would be necessary to extend and adapt hedge accounting to financial instruments which are fair-valued through OCI, by recognising symmetrically in OCI the effective part of the hedging instrument.

Moreover, we reiterate that the prohibition of recycling between OCI and profit & loss for equity instruments under IFRS 9 is inappropriate since it would result in a misrepresentation of entities performance in the income statement and request that relevant amendments be made to IFRS 9 phase I.

#### ***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?***

By principle, we agree that hedging instruments should not be limited to derivative instruments since entities are also using cash-instruments as hedging instruments for risk management purposes.

### ***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?*

We agree with the Board's proposal to allow a combination of an exposure and a derivative to be designated as a hedged item. It will align hedge accounting requirements with the way entities are in practice managing their risk exposure during the life of the hedged items, such as the cash flow risk arising on debt instruments bearing interest at floating rate either directly or synthetically through the use of a swap transaction.

### ***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 (ie 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?*

We agree with the principle proposed by the ED regarding eligible risk components, which addresses homogeneously both financial and non financial items.

This should resolve one of the weaknesses of IAS 39 which prevents an entity to apply hedge accounting when hedging, for instance, a risk related to the price of commodities (e.g., aluminium or copper) included in the cost of a manufactured product.

However, we do not see the rationale behind the IASB's decision to prohibit entities from designating as hedged item the inflation component of financial instruments or the credit risk of financial instruments (see Q15). These restrictions are unduly adding arbitrary rules (coming from IAS 39), which seems contradictory with the principle-based approach proposed in the ED.

Inflation may be an input observable in the market and thus reliably measurable. Therefore, we do not see the rationale for prohibiting inflation (not contractually specified) from being an eligible hedged component provided that an entity would be able to demonstrate that inflation is separately identifiable and reliably measurable. We also wonder whether this prohibition could have unintended consequences on the qualification of risk components of non financial items.

We also have strong concerns related to the prohibition from hedging a libor component of sub-libor financial instruments (see other major matters at the end of this appendix). Furthermore, we consider that the hedging the credit risk component of a financial instrument should be eligible as hedged item similarly to any other risk component (see Q15).

### ***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?*

(a) We agree that an entity should be allowed to designate a layer of the nominal amount (or volume) of an item as a hedged item either in a cash flow or fair value hedge relationship. We consider that, by principle, ineffectiveness cannot result from under-hedge (i.e. designating a hedged amount below the risk exposure), when the objective is to purposely under-hedge a risk exposure. Allowing a layer approach is an appropriate way to address such issue.

(b) The prohibition from designating as hedged item a layer component of a contract that includes a prepayment option raises the following concerns:

- We are concerned about how the prohibition from designating a layer component of a contract that includes a prepayment option will interact with the IASB decisions regarding macro-hedging of portfolios for interest rate risk expected in the second sub-phase. The ANC considers that, in the case of portfolio hedging, the designated hedged cash-flows should be determined based on economic rather than contractual cash flows, notably for prepayable instruments: the interest rate risk could be isolated from the prepayment risk using expected cash-flows based on the modelling of customers' behaviour. Therefore, the prohibition proposed by the ED should not prevent from developing a specific approach for hedge relationships on a portfolio basis (either closed or open).
- We consider that, for individual hedge relationships, a distinction should be made between purchased and written prepayment options: when an entity controls the exercise of the option (i.e. the entity holds a prepayment option), the designation of a layer component should be allowed since the entity is able to demonstrate that the option is not affected by the hedged risk (e.g. interest rate of a liability including an issuer call option).

#### ***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?*

We support the removal of the current highly effective quantitative threshold (80-125%) which is arbitrary and leads to excluding effective hedges from hedge accounting.

For instance, a financial instrument that effectively offsets 75% of the changes in fair value of a designated hedged item is disqualified from hedge accounting and 100% of the hedging instrument creates volatility in profit or loss whereas only 25% represents ineffectiveness. This current requirement has discouraged entities to manage certain risks for which there are few highly effective hedging instruments available but only proxies (for instance, crude oil derivatives are used to hedge jet fuel prices).

We rather prefer a principle-based qualifying criterion and a qualitative or quantitative assessment of the effectiveness depending on the complexity of the hedge relationship as outlined in the ED. Moreover, we agree with the removal of the retrospective hedge effectiveness test.

Nevertheless, in order to better appreciate the criteria of “unbiased result” and “more than accidental offset” and therefore avoid inconsistencies in the hedge accounting practices, it is useful to set-up a guidance regarding those criteria.

## ***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?*

(a) Today, systematic and quantitative assessment of effectiveness within a strict threshold leads to potential discontinuance of hedge accounting. It generates a burdensome dedesignation and subsequent redesignation process. Therefore, in addition to the new effectiveness criterion, the introduction of a distinction between rebalancing and discontinuation is welcomed.

However, we are concerned that the rebalancing mechanism, as proposed by the ED, is not simple and clear since very lengthy application guidance is required to explain/illustrate it. Additionally, it could raise operational difficulties in the following areas :

- the level at which the risk management objective must be considered is not specified (transaction level? Global risk management strategy?) ;
- rebalancing is mandatory and could lead to reviewing and documenting the hedge ratio at each reporting date;
- several rebalancings could lead to several burdensome effectiveness assessments based on different hedged items characteristics for each rebalanced portion;
- the distinction between rebalancing and discontinuation is not clearly defined in the ED.

(b) It seems sound to allow an entity to proactively rebalance a hedge relationship if it is expected that this relationship might fail to meet the objective of the hedge effectiveness assessment in the future.

## ***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?*

(a) While we refer to Q7a regarding the lack of clarity regarding the interactions between rebalancing and discontinuation, we agree that hedge accounting should be discontinued when the hedge relationship ceases to meet the qualifying criteria.

(b) As long as the risk management objective remains the same, it seems logical to forbid any de-designation of a hedging relationship that still meets this objective.

However, consistently with our response to question 7, we believe the ED is unclear with respect to the level at which the risk management objective must be considered for this requirement (transaction level? Global risk management strategy?).

## *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?*

(a) We agree with the Board's final decision not to fully align accounting for fair value hedges with the accounting for cash flow hedges which would have added undue volatility in OCI.

We are not convinced that recognising the fair value gain or loss of both the hedging instrument and the hedged item in OCI with the ineffectiveness transferred from OCI into profit or loss (i.e. a two-step approach) is useful. Moreover, adding three lines in OCI may undermine the clarity and the understandability of the financial statements. This information could be well-suited in the disclosures.

(b) Similarly with the above paragraph, we consider that adding several lines on the face of the statement of financial position in the case of multiple hedge relationships may heavily undermine the clarity and the understandability of the financial statements. Therefore, we would prefer to present the effect of hedge accounting on hedged items in a sole line in the asset-side and/or the liability side of the statement of financial position. The detailed effect of hedge accounting on the hedged items for each component of the statement of financial position would be best presented in the disclosures.

Meanwhile, the current presentation used in practice of the net gain or loss on the hedged item in a fair value hedge relationship in a separate line of the statement of financial position is still appropriate for macro-hedging of financial assets and liabilities on a net basis.

(c) Consistently with the above paragraphs, we are not in favour of a linked presentation.

## *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 (eg 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 (ie 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?*

### Preliminary remarks :

First of all, we believe that the time value of options represents the cost of hedging (which is known at inception) and should not create undue volatility in profit or loss, since options, by nature, perfectly offset asymmetrical risk. Therefore, we globally agree with the accounting for the time value of option for CFH and FVH in OCI. Moreover, we consider that the interest element (forward points) of forward contracts (ED §8b) should follow the same treatment since it also represents a cost of hedging.

However, we believe that those requirements are adding complexities and could be simplified. For instance, instead of creating a new hedge accounting mechanism specifically for the time value of options, a simple accommodation of current FVH and CFH could be considered.

(a) We agree with recycling the initial time value of options in profit or loss or as a basis adjustment when the hedged transaction impacts the financial statements, which is consistent with the cost of hedging/insurance premium view.

(b) In the case of time period-related hedge relationships, we agree that the time value of options should be deferred and amortised on a rational basis over the hedging relationship in order to properly reflect the cost of hedging.

(c) The new concept of "aligned time value" seems similar to the already known "hypothetical derivative" wording also mentioned in the ED. The meaning of these two concepts should be clarified and the IASB should avoid introducing the same notion behind different words that could create confusion among IFRS users.

Having said that, we understand that this proposed requirement is a way to control the time value that is deferred in OCI, which seems consistent with the principle of recognising ineffectiveness in profit or loss.



## ***Hedges of a group of items***

### ***Question 11: Eligibility of a group of items as the hedged item***

*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?*

We consider that hedge accounting must be consistent with the risk management policy of an entity. Therefore, we agree that a hedged item could be designated on a gross or net basis, as well as on an individual or portfolio basis, consistently with risk management practices.

We agree with some of the new criteria for the eligibility of groups of items as hedged items, notably requiring managing items on a group basis for risk management purposes. Such criteria underline the link between hedge accounting and risk management.

However, we believe the third criteria requiring offsetting cash flows to affect profit or loss in the same reporting period is too restrictive. For instance, entities with foreign activities usually manage their risk at the group level on a net basis. These entities are not able to match all cash flows in the same period and may manage their cash flows over several periods. For instance, the future USD cash received from expected sales in Q4 may be considered as offsetting the FX risk related to an expected cost in USD the beginning of the next year.

Therefore, this 3<sup>rd</sup> criteria is not in line with the current way entities manage their risk in practice and should thus be relaxed.

### ***Question 12: Presentation***

*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 (eg 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?*

We agree that the effect of any hedging instrument for a hedge on a net basis of a group of items that affects different line items in the income statement should be presented in a separate line. This would avoid reflecting in each line, on a gross basis, transactions that do not actually exist. We also note that allowing a gross up of the effect of a net basis hedge relationship in profit or loss would raise the issue of the accounting treatment of naturally hedged positions, for which hedge accounting does not seem appropriate. Moreover, we consider that, consistently, a gross-up of the financial statement of position is inappropriate in the case of hedging of financial assets and liabilities on a net basis.

## ***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?*

In order to justify the use of hedge accounting in accordance with their risk management policies, we consider that entities should refine the description of their risk management policies and strategies.

Therefore, we globally agree with the proposed disclosure requirements that provide improved information about the entity's risk management strategies and the effect of hedge accounting on financial statements.

### ***Accounting alternatives to hedge accounting***

#### ***Question 14 : Accounting for a contract for a non-financial item that can be settled net in cash as a derivative***

*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?*

We regret the lack of clarity of the proposal which is only mentioned shortly in the appendix of the ED without detailing the proposed amendment to IAS 32. For instance, we wonder whether this "accounting alternative" would be mandatory or optional.

We question the usefulness of the proposal. For instance, it seems that this alternative could be available only when the net exposure is close to nil, which might be rare in practice. We consider that the "own use" exception is currently raising several issues that have not been discussed by the Board. We acknowledge that "the scope of IAS 39 should be considered during a later phase of the project to replace IAS 39" (IFRS 9 October 2010 - BC2.1). We therefore encourage the Board to further explore this issue during this later phase.

***Question 15 : Accounting for credit risk using credit derivatives***

*(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?*

We regret that the IASB did not deal with the hedging of credit risk in the ED whereas this issue significantly impacts financial entities.

The IASB argues that hedge accounting is not achievable to account for hedges of credit risk using credit derivatives because “measuring the credit risk component of a loan or a loan commitment is complex” (BC225) and that, consequently, an alternative accounting treatment (other than hedge accounting) is needed.

However, asserting that credit risk is not an eligible hedged component (i.e. separately identifiable and reliably measurable) in a hedge relationship does not seem consistent with other IFRS requirements, such as the fair value option for financial liabilities which requires the entity to present the effect of changes in the liability’s credit risk in OCI.

While we agree that assessing credit risk may be challenging, entities are currently managing this risk in practice which is (mainly for banks but also for insurers) a strategic activity. Moreover, a credit derivative is the sole and most effective derivative instrument that economically hedges credit risk as currently used by market participants. If credit derivatives were not an appropriate economical hedging instrument, as the IASB seems to assert, this would raise a huge arbitrage opportunity for market participants.

Furthermore, both banks and insurance regulators accept credit derivatives as a hedge of credit risk, under certain conditions. For example, insurers purchase protection through credit derivatives to cover the risk of failure or downgrade in the credit quality of certain exposures. This technique is an example of financial risk mitigation technique that is recognized for Solvency II purposes providing certain conditions detailed in QIS 5 are met: notably that the CDS references the same reference entity of the bond and same seniority (i.e. a senior unsecured bond hedged with a senior CDS on the same reference entity). Thus, easing the use of credit derivatives as hedging instruments for hedge accounting would be consistent with the main objective of the ED, i.e. improve the link between accounting and risk management activities.

Therefore, we consider that hedge accounting must be eligible for credit derivatives hedging the credit risk component of financial instruments. We consider that the Board should further explore a way to avoid the current accounting mismatch, as tentatively decided in October 2010, for instance by accounting for the premium on the credit derivatives in a similar way as the time value for options. Credit derivatives are used for risk management purposes as a protection - i.e. a guarantee - against the default of a counterpart. Another alternative would be to treat them as a guarantee, which implies the recognition of the premium paid in profit or loss on a rational basis.

In any case, the three alternatives proposed by the Board are not satisfactory since they are based on the fair value option which implies to recognise all changes in fair value in profit or loss, including components that may not be hedged by the entity, such as the interest rate risk.

### ***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?*

We agree with the prospective application proposed by the ED, which is more operational than a full retrospective one.

Moreover, we support the treatment of hedge relationships that qualify both under IAS 39 and under the proposed standard as continuing hedging relationships.

However, the ANC disagrees with the proposal to permit early application since it will undermine the comparability among IFRS reporting entities. On the contrary, the ANC considers that all phases of IFRS 9 should be mandatorily applicable at a single effective date with no earlier application.

### ***Other major matters***

The ANC disagrees with the IASB decision to maintain the restriction in IAS 39 regarding the designation of risk components when the designated component would exceed the total cash flows of the hedged item, i.e. the sub-libor issue (economically a risk component may be higher than the contractual cash flow of the hedged instrument, for instance for sub-libor instruments).

This prohibition is not consistent with the principle proposed by the ED on the designation of risk components as hedged items. By principle, a bond paying libor plus margin must be eligible for hedge accounting for the portion related only to the libor risk, whatever the sign of the margin is (negative or positive). This is very similar to a hedge of a fixed rate instrument subsequently to its origination (e.g. hedging a 6% rate bond with a 8%-E3M swap), which is currently allowed by IAS 39 (see AG99D) and still allowed by the ED (§B26).

Moreover, this restrictive rule will prevent banks from reporting properly in their financial statements their actual interest rate risk management activities, which are strategic for them. This is inconsistent with the objective of hedge accounting proposed by the ED, which is “to represent in the financial statements the effect of an entity’s risk management...”.