

Winnie Chan

主旨: FW: HKICPA Invitation to Comment on IASB ED on Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)

From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Saturday, March 16, 2013 12:50 PM
To: Simon Riley; Winnie Chan
Cc: Committee-FRSC; David Graham; Grace Hui; Dorian Chan; Elce Lee; Silvana Kam; LIAA
Subject: HKICPA Invitation to Comment on IASB ED on Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)

Dear Simon and Winnie,

HKICPA Invitation to Comment on IASB ED on Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9) (IASB due date 2 April 2013)

Thank you for the HKICPA letter dated 4 March 2013 on the subject matter addressed to Mr. Mark Dickens, our past Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee. Please note that with effect from 1 March, 2013, Mr. David Graham is the HKEx's Chief Regulatory Officer and Head of Listing.

It is my understanding that the IASB received an urgent request to clarify whether an entity is required to discontinue hedge accounting for hedging relationships in which an over-the-counter (OTC) derivative has been designated as a hedging instrument in accordance with IAS 39 in a circumstance where that OTC derivative is novated to a central counterparty (CCP) following the introduction of a new law or regulation.

The G20 commitment to improve transparency and regulatory oversight of OTC derivatives has resulted in laws and regulations in several jurisdiction changing on OTC derivatives, requiring many of them to be novated to a CCP. A novation is the substitution of a new contract in place of an old one.

Under the extant requirements of IAS 39, the IASB concluded that the novation to a CCP would meet the derecognition requirements both for financial assets and financial liabilities in IAS 39. Consequently, the IASB concluded that an entity is required to discontinue the hedge accounting for an OTC derivative that has been designated as a hedging instrument in the existing hedging relationship if the OTC derivative is novated to a CCP. The new derivatives, with a counterparty being the CCP, are to be recognized at the time of the novation. Whilst the IASB believed that the analysis under IAS 39 is clear, it did not believe that the outcome was desirable, as there would be an increased risk that the hedging relationship would fail to meet the 80 to 125 per cent hedge effectiveness range required by IAS 39.

The IASB decided to propose this limited scope amendment to provide relief from discontinuing hedge accounting when the novation to a CCP is required by new laws or regulations and meets certain criteria as follows:

- 1) The novation is required by laws or regulations;
- 2) The novation results in a CCP (sometimes called a "clearing organization" or "clearing agency") becoming the new counterparty or each of the parties to the novated derivative; and

- 3) The changes to the terms of the derivative are limited to those that are necessary to effect the terms of the novated derivative. Such changes are limited to those that are consistent with the terms that would have been expected if the novated derivative had originally been entered into with the CCP.

If the above criteria are met, the IASB proposed that in the context of IAS 39 and IFRS 9, hedge accounting should be required to continue when the above narrow category of novation occurs.

All IASB members approved the proposed amendments.

Based on the above, as the discontinuation of hedge relationship in this narrow category of novation would not provide useful financial information, I am supportive of the proposed amendments. However, the HKICPA may wish to consider whether the above 3 criteria is extensive enough and whether to request the IASB to include clarifications on other situations like where an entity voluntarily clears an OTC derivatives through a CCP or where a counterparty novates an OTC derivative to its affiliate in response to other changes in laws or regulations.

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
Vice President, Head of Accounting Affairs (Listing Division)
HKEx

Note:

This e-mail is confidential and is intended solely for the addressee. Any unauthorized use of the contents is expressly prohibited. If you are not the intended recipient, you are hereby notified that any use, distribution, disclosure or copying of this e-mail is strictly prohibited. If you have received this e-mail in error, please immediately notify the sender and delete it from your system. E-mail communication cannot be guaranteed to be reliable, secure, error-free or virus-free. Accordingly, we cannot accept liability for any damage sustained as a result of any virus, error or incompleteness of this e-mail or any failure to deliver promptly or at all information exchanged between you and us by this means. If you suspect that this e-mail may have been intercepted or amended, please contact the sender.

"Conserve the Environment" - Think before you print