**FIRCA** Financial Instruments Reporting and Convergence Alliance

March 25, 2013

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

**Re: IASB Exposure Draft on *Novation of Derivatives and Continuation of Hedge Accounting (Proposed Amendments to IAS 39 and IFRS 9)***

Dear Chairman Hoogervorst:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of business, financial, insurance and real estate trade representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

FIRCA appreciates the opportunity to comment on the IASB's Exposure Draft on *Novation of Derivatives and Continuation of Hedge Accounting (Proposed Amendments to IAS 39 and IFRS 9)* ("the Proposal"). FIRCA generally supports the proposal, although we would recommend allowing the proposed amendment to apply to either required or voluntary novations as a consequence of laws and regulations, as explained below.

## FIRCA Mission and Principles

The mission of FIRCA is:

- To support the use of high quality, robust international accounting standards developed and adopted jointly by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB"). These standards should be decision-useful, reliable, and relevant. Additionally, these standards should present financial information in a manner that reflects the business operations of the

reporting entity. Appropriately crafted standards should transparently provide information and not drive economic activity.

- To assist standard setters in providing a wide range of input to ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting standards.

- Recognizing the ongoing impacts of the 2008 financial crisis and continued currency pressures in the Euro Zone are global in scope and magnitude, we will continue to work with standard setters and decision makers to ensure that these projects are conducted jointly to provide a comprehensive response to financial reporting policies.

## Comments on Proposal

We recently provided you with FIRCA's updated principles that cover several aspects of the joint Financial Instruments project including: Classification & Measurement of Financial Assets and Financial Liabilities, Impairment, Derivatives and Hedging.[1] We updated these principles to reflect changes in the market as well as progress made by the Boards in their deliberations.

The Proposal would require an entity to continue hedge accounting in a circumstance in which a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty (such as derivatives clearing organizations or agencies) as a consequence of laws or regulations. FIRCA supports the Proposal's introduction of this exception to the requirements for discontinuation of hedge accounting in IAS 39. We appreciate that the IASB has recognized and responded to this problem.

However, we also recommend that the IASB consider permitting the exception to apply to either required or voluntary novations that can occur as a consequence of laws or regulations. For example, the staff of the United States Securities and Exchange Commission ("SEC") recognizes an exception for the circumstances that arise as a consequence of Section 716 of the Dodd-Frank Wall Street Reform and

[1] *See* FIRCA letter of October 10, 2012 to FASB Chairman Leslie Seidman and IASB Chairman Hans Hoogervorst. For convenience, FIRCA's Core Principles are also included as an attachment to this letter.

Consumer Protection Act of 2010 where an institution may *elect* to move existing derivatives positions from one legal entity to a separate legal entity within a consolidated group of companies to avoid the operational challenges of managing a derivatives portfolio in two separate entities.[2] This circumstance was also among those the SEC staff requested that the Financial Accounting Standards Board ("FASB") consider on the accounting for a change in counterparties when a derivative contract is designated as a hedging instrument in a hedge relationship as a part of the FASB's existing project on financial instruments. Additionally, the SEC permits other exceptions for institutions that voluntarily clear transactions through a central counterparty, which we believe the IASB should consider.

Furthermore, it should be noted that the underlying reason for the Proposal is that IFRS 9 does not currently allow a reporting entity to de-designate and then re-designate a hedge relationship. Many reporting entities by necessity employ highly dynamic hedging practices that require de-designation and re-designation as new instruments move into the hedged position or pay off and as hedge instruments expire over time. FIRCA strongly recommends that the IASB allow de-designation and re-designation in its new hedge accounting standard.

**Conclusion**

FIRCA looks forward to continuing our efforts to work with the IASB to achieve our goals of robust accounting standards that reflect the economic activity of business operations in the furtherance of efficient and fair global capital markets. We stand ready to assist you in achieving these goals.

Sincerely,

American Council of Life Insurers
Council of Federal Home Loan Banks
CRE Finance Council
Mortgage Bankers Association
Property Casualty Insurers Association of America
The Financial Services Roundtable
The Real Estate Roundtable
The U.S. Chamber of Commerce

[2] *See* the letter of May 11, 2012 from James Kroeker, SEC Chief Accountant, to Dan Palomaki, Chairman Accounting Policy Committee of the International Swaps and Derivatives Association.