29 September 2014

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

Via online submission: www.ifrs.org

Dear Hans,

Comment letter on Discussion Paper DP/2014/1: *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*

CPA Australia and Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) represent over 250,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia.

Thank you for the opportunity to comment on the Discussion Paper: *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* ("the DP"). We have considered the DP and provide the following comments for your consideration.

The DP is timely, we believe, in addressing the limitations of the current general hedge accounting model for the hedging of dynamic portfolios. We agree with the International Accounting Standard Board (IASB) that the issue of accounting for entities' dynamic risk management activities requires a solution, and commend the IASB's initial efforts in contemplating a model that reflects current thinking in this area.

We suggest that the IASB considers using the feedback obtained from the DP as the basis for further research and outreach activities, in order to ensure that the macro hedging model is relevant to risks arising from both financial and non-financial items. In our view, it would be beneficial if these additional research and outreach activities were conducted *prior* to the development and publication of an Exposure Draft on this topic.

The reasons underlying our suggestion are:

- the complexity of this subject area;
- the absence of illustrative examples other than dynamic risk management of interest rate risk for banks; and
- the overlap in the releases of the DP and the new revenue recognition standard IFRS 15 *Revenue from Contracts with Customers*.

It is our contention that further research and outreach should be focused on risks other than interest rate risk, such as commodity price risk and foreign exchange risk, and that it should engage with and seek to understand the views of stakeholders outside the banking sector, such as those in the utility, insurance and manufacturing sectors.

I) Complex subject area

Financial Instruments, hedge accounting and, in particular, the accounting for the dynamic risk management of open portfolios are highly complex areas of accounting in which few could claim to be expert. We consider that this may have deterred many potentially interested parties from commenting on the DP.

However, we believe that the IASB will be able to gather relevant and useful information from such entities through a targeted outreach programme conducted prior to the development and publication of an Exposure Draft on this topic – information that may not otherwise come to light.

II) Absence of illustrative examples relating to other risk types

The DP focuses on the hedging of interest rate risk for banks. The IASB states that the DP is also intended to gather information on how the proposed approach may be applied to risk types across other sectors; we understand that the IASB hopes to facilitate the development of a macro hedging model with wider application, which will eventually replace the current IAS 39 macro fair value hedging model for interest rate risk.

We believe that the DP’s lack of illustrative examples relating to dynamic risk management in other sectors may prevent entities in those sectors from engaging in the macro hedging debate.

The outreach programme we have suggested previously, if it gathered feedback from entities in other sectors, would assist with the development of a macro hedging model that was applicable to many risk types across various sectors.

III) Overlap with release of IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB and Financial Accounting Standards Board issued their joint revenue recognition standard, IFRS 15 *Revenue from Contracts with Customers* (“the standard”). The standard is relevant to all industries, and will significantly affect the many entities reporting under IFRS at its application date.

As the standard was released during the comment period for the DP, we surmise that many entities focused their limited resources on analysing and planning for the application of this significant new standard, rather than commenting on the DP.

Again, we believe that a targeted outreach programme conducted by the IASB prior to the development and publication of an Exposure Draft on macro hedging would gather relevant and useful information from such entities.

IV) High-quality financial reporting

We commend the IASB on the separation of this project from that addressing IFRS 9 *Financial Instruments.* This separation will allow the IASB to take their time in developing a high-quality accounting model for dynamic risk management without delaying the finalisation of IFRS 9 *Financial Instruments.*

We note that in their paper on the post-2011 work plan, the IFRS Advisory Council advised the IASB that in their view "…the IASB should focus more of its activities on ensuring that IFRS is achieving the intended objective of requiring high-quality financial reporting."

We believe that the goal of high-quality financial reporting will be best served if further research and targeted outreach on accounting for dynamic risk management and the portfolio valuation approach is carried out prior to the development and publication of an Exposure Draft and, ultimately, a new macro hedging model.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) mark.shying@cpaaustralia.com.au or Michael Fraser (Chartered Accountants ANZ) michael.fraser@charteredaccountantsanz.com.

Yours sincerely,

Stuart Dignam
General Manager – External Positioning
CPA Australia Ltd

Rob Ward
Head of Leadership and Advocacy
Chartered Accountants Australia and New Zealand