

Supplementary Information E

Joint Field-Testing on General Hedge Accounting

Background

- 1 The IASB is expected to publish a Review Draft on general hedge accounting by the end of June 2012. The Review Draft will introduce significant changes to the current requirements by better aligning hedge accounting with risk management of companies. The IASB's work plan foresees the issuance of the final standard in the second half of 2012. The comment period on the Review Draft will be 90 days.
- 2 The purpose of the Review Draft for the IASB is to identify any fatal flaws in the document. For example, a lack of clarity in the words that will prevent the document from being applied consistently to achieve the objectives intended by the IASB or drafting that does not accurately reflect the decisions made by the IASB. The Review Draft will not include an invitation to comment as the purpose is not to question the technical decisions. The Review Draft is also being made available to enable entities to increase their familiarity with the requirements prior to finalisation. While as a final due process step the IASB will confirm that the staff should proceed to finalisation, the IASB only intends to address any identified fatal flaws.
- 3 In order to perform an initial assessment of the new requirements, EFRAG is planning to use the Review Draft to conduct jointly with European standard setters a field-test of the revised IASB proposals on general hedge accounting.
- 4 The results of the field-test will be shared with the IASB.

Field-testing

Purpose

- 5 The purpose of the field-test is to:
 - (a) test the operationality of proposals, whether the standard operates as intended, by applying them to a sample of actual instruments and transactions so as to identify difficulties or limitations in the implementation and application;
 - (b) gather information that helps to:
 - (i) assess the quality and effects of the future accounting standard;
 - (ii) assess the usefulness of the information that results from applying the proposals; and
 - (iii) estimate the effort required to implement and apply the proposals.
 - (c) identify fatal flaws, if any, in the Review Draft.
- 6 The input obtained will be used as input to the drafting of any EFRAG draft endorsement advice on general hedge accounting, including the costs and benefits analysis.

Approach of the field-test

- 7 This field-test will be conducted by way of written questionnaires. Although there might be other available approaches such as meetings with organisations, direct telephone calls or conference calls with certain companies, past experience suggests that this is the most useful and efficient way to collect information in a structured way. By using written questionnaires, the feedback received can be processed and analysed more easily.
- 8 The field-test should first gather feedback from preparers through written questionnaires to be received by participants two weeks after the Review Draft is released. Separately, input would be collected from the EFRAG's working groups (i.e. FIWG, IAWG and User Panel).
- 9 EFRAG staff and standard setters will schedule, if necessary, introductory calls and follow-up calls (about 15 minutes) with participants in order to explain the objectives of the field-test, introduce the questionnaire, understand the results and ask for any clarifications.
- 10 During the field-testing period, participants may raise questions concerning the questionnaire which they should address to their point of contact. If a participant's national standard setter is not a partner in this field-test, they should contact EFRAG staff. Otherwise, the staff of the national standard setter should be contacted. In answering these questions, EFRAG and standard setters will not provide interpretations of the Review Draft as this would diminish the usefulness of the findings. Participants will be asked to document any interpretations made during the field-test in the questionnaire.
- 11 Participants will have six weeks to carry out the field-test. Participants should fill out the questionnaire in English and provide a copy of the completed questionnaire to EFRAG staff and to their national standard setter.
- 12 EFRAG and standard setters will consider at a later stage to organise workshops depending on whether or not that would be helpful in interpreting the findings from the questionnaires.
- 13 Information will be shared between EFRAG staff and standard setters regardless of the way of communication chosen by participants. The IASB will also have access to the information.
- 14 EFRAG staff and standard setters will prepare a feedback report on the results of the field-test.

Who should participate?

- 15 EFRAG staff and standard setters encourage all entities (regardless of the industry they operate in) that believe they are affected by the proposals to participate in the field-test.

Tentative topics included the questionnaire

- 16 The questionnaire is expected to cover, among others, the following topics:
 - nature of risks and risk management
 - effects from the application of the new requirements, in particular for:
 - Hedging risk components;

Field-testing of the general hedge accounting model

- Hedging derivatives as part of aggregated exposures, groups of items and (nil) net position;
 - Assessing hedge effectiveness, rebalancing and discontinuation;
 - Accounting for the time value of options and forward points; and
 - Hedging of credit risk and application of the own use scope exemption.
- assessment of the costs of applying the new requirements.