

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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**Re: ED/2013/2 Novation of Derivatives and Continuation of Hedge Accounting
(Proposed amendments to IAS 39 and IFRS 9)**

Dear Françoise,

We are pleased to have the opportunity to provide our comments in order to contribute to the Exposure Draft (ED) on Novation of Derivatives and Continuation of Hedge Accounting issued in February 2013.

We agree with the proposal on ED about the continuation of hedge accounting when a novation is imposed by laws or regulations. However, we believe that the approach followed by the IASB is more similar to an interpretation rather than an amendment of a standard. The IASB is giving indication to a specific case rather than introducing a principle applicable also to the case under valuation. Therefore we would suggest the Board to amend IAS 39 and IFRS 9 by introducing a more general statement in which it clarifies that a novation – either mandatory or voluntary – which changes only the counterpart of the contract, while maintaining unmodified all the other terms of the contract should not give rise to a discontinuation of the hedging in place.

The appendix of this letter reports the replies on the specific question raised in the ED.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

APPENDIX

The OIC's response to the specific question raised in the ED.

Question 1

The IASB proposes to amend IAS 39 so that the novation of a hedging instrument does not cause an entity to discontinue hedge accounting if, and only if, the following conditions are met:

- (i) the novation is required by laws or regulations;
- (ii) the novation results in a central counterparty (sometimes called 'clearing organisation' or 'clearing agency') becoming the new counterparty to each of the parties to the novated derivative; and
- (iii) the changes to the terms of the novated derivative arising from the novation of the contract to a central counterparty are limited to those that are necessary to effect the terms of the novated derivative. Such changes would be limited to those that are consistent with the terms that would have been expected if the contract had originally been entered into with the central counterparty. These changes include changes in the collateral requirements of the novated derivative as a result of the novation; rights to offset receivables and payables balances with the central counterparty; and charges levied by the central counterparty.

Do you agree with this proposal? If not, why? What criteria would you propose instead, and why?

In the case considered in the ED, we agree with the proposal. See also our answer on question 2.

Question 2

The IASB proposes to address those novations arising from current changes in legislation or regulation requiring the greater use of central counterparties. To do this it has limited the scope of the proposed amendments to a novation that is *required* by such laws or regulations. Do you agree that the scope of the proposed amendment will provide relief for all novations arising from such legislation or regulations? If not, why not and how would you propose to define the scope?

We believe that the proposal to allow the continuation of the hedge accounting should be extended beyond those cases where the change in the counterparty is imposed by laws or regulations. In particular, we think that this relief should also be allowed in the case of voluntary

“subjective” novation where the counterparty of the hedging instruments changes, while other terms of the original contract remain unchanged.

We do think that different types of novations, such as those described above, that are common and relevant in practice (e.g. after a business combination a new entity becomes the counterpart of an existing contract, succeeding to the old one) should be included in the scope of the amendments proposed.

Question 3

The IASB also proposes that equivalent amendments to those proposed for IAS 39 be made to the forthcoming chapter on hedge accounting which will be incorporated in IFRS 9 Financial Instruments. The proposed requirements to be included in IFRS 9 are based on the draft requirements of the chapter on hedge accounting, which is published on the IASB’s website^(a)

Do you agree? Why or why not?

(a) See the draft of the forthcoming hedge accounting requirements posted on the IASB website on 7 September 2012 (<http://go.ifrs.org/Draft-of-forthcoming-IFRS-general-hedge-accounting>)

We agree with the IASB proposal.

Question 4

The IASB considered requiring disclosures when an entity does not discontinue hedge accounting as a result of a novation that meets the criteria of these proposed amendments to IAS 39. However, the IASB decided not to do so in this circumstance for the reason set out in paragraph BC13 of this proposal.

Do you agree? Why or why not?

We disagree. We think that specific disclosure is appropriate and useful for the users of financial statements because the novation considered in the ED changes significantly the counterpart risk inherent in the portfolio of derivative contracts (i.e. minimize the risk of default). Even more, in the case of voluntary novation where, all other terms being equal, a change in the creditworthiness of the counterpart (and in the current value of the derivative) could happen. Therefore, we believe that the IASB should provide some minimal disclosure requirements to ensure the comparability of the financial statement when a novation occurs.