

Sent: Friday, February 22, 2013 1:38 PM To: CommentLetters

Subject: Consultation on the impact of the Review Draft general hedge accounting on macro-hedging practices

Dear Ms. Flores,

We appreciate the opportunity to comment on the EFRAG's Consultation on the impact of the Review Draft general hedge accounting on macro-hedging practices issued by EFRAG on 22 January 2012. This letter represents the views of DZ BANK AG.

We agree that the revised wording of IAS 39.71 does not allow the IASB to achieve the goal of maintaining the status quo of the current hedge accounting. However, we feel that the terminology used in the draft comment letter (especially regarding the terms "macro hedge" and "portfolio hedge") is rather practice oriented.

The widely used term "macro hedge" refers usually to the risk management of the entire banking book or its parts that include typically both financial assets and financial liabilities on a net basis. However, this term is not used in IAS 39, which makes it from our point of view partly difficult to understand argumentation in the draft comment letter (especially in the appendix).

Interest rate risk management on a net basis can currently be technically represented in accounting by means of accounting for hedge relations either using fair value hedge of the interest rate exposure of an open portfolio according to IAS 39.81A or, alternatively, as "proxy hedging" with designation of single hedge items on gross basis (IAS 39.A101 and IAS 39.IG F.6.1). Proxy hedging can also be implemented in form of cash flow hedges as described in IAS 39.IG F.6.2 with reinvestment risk as hedged risk.

Having made changes to IAS 39.71 IASB ensured that the portfolio hedging according to IAS 39.81A can be continued during the transition phase (until the new macro hedging standard is released). However, the review draft does not contain any regulations referred to proxy hedges. In fact, it states that the objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities (paragraph 6.1.1).

Thus, it is possible that some currently existing hedge accounting practices will no longer be allowed under IFRS 9 and until finalization of the new macro hedging standard no real alternative will be available.

Despite the recent IASB's tentative decision to clarify that designations for hedge accounting purposes do not have to be the same as the actual risk management view, there are significant doubts that all kinds of currently accepted "proxy hedges" will be permitted in future as the designations must be directionally consistent with risk management. The rules based hedge accounting concept of IAS 39 does not requires directional consistency which implies that some techniques (exact meaning of the term "directional consistency" needs to be explained by IASB) will be inconsistent with the new general hedge accounting model.

In order to permit entities to retain their accounting practices under the IFRS 9 regime we support temporary exemption from IFRS 9 based on a previously asserted accounting policy with regard to the application of hedge accounting for open portfolios managed on a net basis ("proxy hedging") in line with the current IAS 39 if this accounting policy is not

consistent with the requirements of IFRS 9. This temporary (until the new standard on macro hedge accounting is finalized) “grandfathering” of the existing accounting practices should only be available for entities that currently use these accounting practices. However, we consider it questionable whether this exception could be implemented similarly to the approach in IFRS 4 Insurance Contracts (IFRS 4.13 and 14). This would imply that in the time between endorsements of IFRS 9 and the new macro hedge accounting standard an IFRS that specifically applies to this issue will not exist. To our understanding, from IASB’s point of view “proxy hedges” can generally be accounted for in accordance with the requirements of review draft general hedge accounting.

Having said this, being a group consisting of banks, insurance companies and other financial institutions we would like to emphasize the importance of the interactions between IFRS 9 and other standards that are expected to be revised, particularly IFRS 4 and IAS 17. In case that IFRS 9 becomes effective before the finalization of IFRS 4 and IAS 17, this will cause severe accounting mismatches in our financial reports. In our view this would be misleading from a user’s perspective. Having that in mind we question whether scoping out of macro hedging from IFRS 9 can bring considerable advantages for the time line of the entire project. Introducing the FV OCI category as an option that is allowed for subsequent use when IFRS 4 comes into effect - at least if accounting mismatches exist - could in our view be an important step to solve the problem. In this manner at least the time frame of IFRS 9/IFRS 4 could be eased and some disadvantages of groups with a structure similar to ours could be avoided. The second step needed is the finalization of the discussions around IAS 17 in due time.

Yours sincerely,

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