

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2013:03

International Accounting Standards Board
30 Cannon Street
London EC4M 6 XH
United Kingdom

Dear Sirs,

Re: Exposure Draft – ED/2013/2 Novation of Derivatives and Continuation of Hedge Accounting

This is the Swedish Financial Reporting Board's response to your invitation to comment on the Exposure Draft (ED) on Novation of Derivatives and Continuation of Hedge Accounting.

We are supportive of the initiative and the swift reaction from the Board and also understand the need for a short comment period. That said a short comment period always increase the risk for unintended consequences and we believe that we may have identified one unintended consequence in the drafting. The standard is restricted to cases when law and regulation requires an entity to novate a hedging instruments from one counterparty to a central counterparty. We believe that the wording is too restrictive, as outlined below.

Our understanding is that the ED is a reaction to a very soon coming requirement to use a central counterparty in derivative transactions. The new regulation will be implemented in different phases, i.e. the new rules will not affect all OTC transaction at once. This phased in approach means that the entities will have some time to adapt to the new regulation. A consequence of that is that the entity may chose to move OTC-transactions to a central counterparty some time before it is required by law or regulation.

A literal interpretation of the ED means that the proposed relief for the dedesignation of hedging relationships when changing counterparty due to coming changes in laws and regulations, the relief will not apply, i.e. if the entity does not change counterparty at the same day or later than is required.

We recommend that the Board reconsider the drafting to include also novations from one counterparty to a central counterparty due to coming laws or regulations.

We also want to highlight that there might be requirements based on direct laws and regulations as well as indirect effects which create the same incentives to novate to a central counterparty (economic compulsion). We urge the Board to consider the final drafting to also include indirect effects. One such example is when capital requirements are rewritten in such a way that there is clear economic incentive to make a novation from a counterparty to a central counterparty. We are convinced that the implementation of CRD IV (the implementation of Basel III in Europe) is such a change in law and regulation complementing EMIR (European Market Infrastructure Regulation).

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Rådet **för** **finansiell rapportering**

If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: claes.janzon@radetforfinansiellrapportering.se

Yours sincerely



Anders Ullberg

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