Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
Accountant
Individual Commentary
Rio de Janeiro / Brazil

Technical Director
International Accounting Standards Board – IASB
IFRS Foundation Publications Department.
1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

Copy: EFRAG Supervisory Board
Technical Director
European Financial Reporting Advisory Group – EFRAG
commentletters@efrag.org
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

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Accounting for Dynamic Risk Management:
a Portfolio Revaluation Approach to Macro Hedging

I´m Denise Juvenal this is pleased to have the opportunity to comment on this consultation for EFRAG invites comments on proposal Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging of the European Financial Reporting Advisory Group - EFRAG. This is my individual commentary for the EFRAG., I agree with this proposal.

I suggest for the Board´s if agrees, that observe the results of discussion about Getting a Better Framework - COMPLEXITY – Bulletin[1] elaborated by EFRAG, The document by IOSCO[2] about continues work to strengthen capital markets as driver of economic growth and the " Communiqué Meeting of G20 Finance Ministers and Cen-

[1] http://www.efrag.org/Front/p303-2-272/Conceptual-Framework----Bulletin--Complexity.aspx
[2] http://www.iosco.org/news/pdf/IOSCONEWS350.pdf

tral Bank Governors Cairns, 20-21 September 2014 - Financial Stability Board, Media Conference, Cairns[3].

I am including my comments that I sent for the International Accounting Standards Board for this discussion.

Questions for respondents:

Question 1—Need for an accounting approach for dynamic risk management
Do you think that there is a need for a specific accounting approach to represent dynamic risk management in entities' financial statements? Why or why not?

I have doubt if the IASB needs to have a specific accounting approach, but I understand that the IASB could have or create a methodology for development different types of risk for valuation.

However, the dynamic risk management in entities can result analysis with specific points for financial statements, for example the valuation for: industry, security, government, non-profits and services need to have different considerations in the risk about financial statements, I do not know, where the contracts are applied in the market for this consideration.

So, I suggest for the Board´s if agrees that observe the application of risk analysis in different areas, because these results could improve the method for risk in relation the application of reporting in the organizations, I think that one point can consult the keys international regulators.

Question 2—Current difficulties in representing dynamic risk management in entities' financial statements

(a) Do you think that this DP has correctly identified the main issues that entities currently face when applying the current hedge accounting requirements to dynamic risk management? Why or why not? If not, what additional issues would the IASB need to consider when developing an accounting approach for dynamic risk management?

Yes, I agree that this DP has correctly identified the main issues that entities currently face when applying the current hedge accounting requirements to dynamic risk management.

(b) Do you think that the PRA would address the issues identified? Why or why not?

[3] https://www.g20.org/news/transcripts/financial_stability_board_media_conference_cairns and

Yes, I think that the PRA would address the issues identified.

Question 3—Dynamic risk management

Do you think that the description of dynamic risk management in paragraphs 2.1.1–2.1.2 is accurate and complete? Why or why not? If not, what changes do you suggest, and why?

I agree with the description of dynamic risk management in paragraphs 2.1.1 – 2.1.2, is accurate and complete, but, I have doubt in relation which aspects of risk for example: In this case has impact for exceptions in the organizations use this description for financial statements? I suggest for the Board´s if agrees, consults the regional regulators, I know that my question do not be directly integrate for this point, I do not know.

Question 4—Pipeline transactions, EMB and behaviouralisation

Pipeline transactions

(a) Do you think that pipeline transactions should be included in the PRA if they are considered by an entity as part of its dynamic risk management? Why or why not? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework for Financial Reporting (the Conceptual Framework).

Yes, I think that pipeline transactions should be included in the PRA if they are considered by an entity as part of its dynamic risk management. I do not know if for specific point can include in the Conceptual Framework for Financial Reporting, because in this case I understand that is very important to have general informations for this point and do not modify the proposal of Framework for concepts.

EMB

(b) Do you think that EMB should be included in the PRA if it is considered by an entity as part of its dynamic risk management? Why or why not? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework.

Yes, I think that EMB should be included in the PRA if it is considered by an entity as part of its dynamic risk management. I do not know if for specific point can include in the Conceptual Framework for Financial Reporting, because in this case I understand that is very important to have general informations for this point and do not modify the proposal of Framework for concepts.

Behaviouralisation

(c) For the purposes of applying the PRA, should the cash flows be based on a behaviouralised rather than on a contractual basis (for example, after considering prepayment expectations), when the risk is managed on a behaviouralised basis? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework.

I do not know, because in relation the contractual basis that involved purposes of applying the PRA, I do not know if fiscal laws have some impact for elaboration of cash flows. I do not know if for specific point can include in the Conceptual Framework for Financial Reporting, because in this case I understand that is very important to have general informations for this point and do not modify the proposal of Framework for concepts.

Question 5—Prepayment risk

When risk management instruments with optionality are used to manage prepayment risk as part of dynamic risk management, how do you think the PRA should consider this dynamic risk management activity? Please explain your reasons.

If when risk management instruments with optionality are used to manage prepayment risk as part of dynamic risk management, because for if I should consider this dynamic risk management activity, so, I understand that I need to have selection of activities for risk in the organization, I do not know.

Question 6—Recognition of changes in customer behaviour

Do you think that the impact of changes in past assumptions of customer behaviour captured in the cash flow profile of behaviouralised portfolios should be recognised in profit or loss through the application of the PRA when and to the extent they occur? Why or why not?

Yes, I think that the impact of changes in past assumptions of customer behavior captured in the cash flow profile of beaviouralised portfolios should be recognized in profit or loss through the application of the PRA.

Question 7—Bottom layers and proportions of managed exposures

If a bottom layer or a proportion approach is taken for dynamic risk management purposes, do you think that it should be permitted or required within the PRA? Why or why not? If yes, how would you suggest overcoming the conceptual and operational difficulties identified? Please explain your reasons.

Yes, I think that it should be permitted or required within the PRA, but I consider that is important to observe the internal control, internal laws and procedures for attend this exposure draft around the world.

Question 8—Risk limits

Do you think that risk limits should be reflected in the application of the PRA? Why or why not?

This question depends of number 6, but I think that risks limits should be reflected in the application of the PRA.

Question 9—Core demand deposits

(a) Do you think that core demand deposits should be included in the managed portfolio on a behaviouralised basis when applying the PRA if that is how an entity would consider them for dynamic risk management purposes? Why or why not?

Yes, I think that core demand deposits should be included in the managed portfolio on a behaviouralised basis when applying the PRA if that is how an entity would consider them for dynamic risk management purposes.

(b) Do you think that guidance would be necessary for entities to determine the behaviouralised profile of core demand deposits? Why or why not?

I think that guidance would be necessary for entities to determine the behaviouralised profile of core demand deposits.

Question 10—Sub-benchmark rate managed risk instruments

(a) Do you think that sub-benchmark instruments should be included within the managed portfolio as benchmark instruments if it is consistent with an entity's dynamic risk management approach (ie Approach 3 in Section 3.10)? Why or why not? If not, do you think that the alternatives presented in the DP (ie Approaches 1 and 2 in Section 3.10) for calculating the reval-

uation adjustment for sub-benchmark instruments provide an appropriate reflection of the risk attached to sub-benchmark instruments? Why or why not?

Yes, I think that sub-benchmark instruments should be included within the managed portfolio as benchmark instruments if it is consistent with an entity´s dynamic risk management approach.

(b) If sub-benchmark variable interest rate financial instruments have an embedded floor that is not included in dynamic risk management because it remains with the business unit, do you think that it is appropriate not to reflect the floor within the managed portfolio? Why or why not?

I think that is appropriate reflect the floor within the managed portfolio.

Question 11—Revaluation of the managed exposures

(a) Do you think that the revaluation calculations outlined in this Section provide a faithful representation of dynamic risk management? Why or why not?

Yes, I think that the revaluation calculations outlined in this Section provide a faifthful representation of dynamic risk management.

(b) When the dynamic risk management objective is to manage net interest income with respect to the funding curve of a bank, do you think that it is appropriate for the managed risk to be the funding rate? Why or why not? If not, what changes do you suggest, and why?

Yes, I think that is appropriate for the managed risk to be the funding rate.

Question 12—Transfer pricing transactions

(a) Do you think that transfer pricing transactions would provide a good representation of the managed risk in the managed portfolio for the purposes of applying the PRA? To what extent do you think that the risk transferred to ALM via transfer pricing is representative of the risk that exists in the managed portfolio (see paragraphs 4.2.23–4.2.24)?

Yes, I think that transfer pricing transactions would provide a good representation of the managed risk in the managed portfolio for the purposes of applying the PRA.

(b) If the managed risk is a funding rate and is represented via transfer pricing transactions, which of the approaches discussed in paragraph 4.2.21 do you think provides the most faithful representation of dynamic risk management? If you consider none of the approaches to be appropriate, what alternatives do you suggest?

Yes, the managed risk is a funding rate and is represented via transfer pricing transactions, which of the approaches discussed in paragraph 4.2.21, I think that provides the most faithful representation of dynamic risk management.

In your answer please consider both representational faithfulness and operational feasibility.

(c) Do you think restrictions are required on the eligibility of the indexes and spreads that can be used in transfer pricing as a basis for applying the PRA? Why or why not? If not, what changes do you recommend, and why?

I do not have certain if I can consider restrictions are required on the eligibility of the indexes and spreads that can be used in transfer pricing as a basis for applying the PRA, but I understand that description of problems of application and taxation laws can impact in this point.

(d) If transfer pricing were to be used as a practical expedient, how would you resolve the issues identified in paragraphs 4.3.1–4.3.4 concerning ongoing linkage?

Yes, I think that would resolve the issues identified in paragraphs 4.3.1 – 4.3.4 concerning ongoing linkage.

Question 13—Selection of funding index

(a) Do you think that it is acceptable to identify a single funding index for all managed portfolios if funding is based on more than one funding index? Why or why not? If yes, please explain the circumstances under which this would be appropriate.

Yes, I think that it is acceptable to identify a single funding index for all managed portfolios if funding is based on more than one funding index.

(b) Do you think that criteria for selecting a suitable funding index or indexes are necessary? Why or why not? If yes, what would those criteria be, and why?

Yes, I think that criteria for selecting a suitable funding index or indexes are necessary.

Question 14—Pricing index

(a) Please provide one or more example(s) of dynamic risk management undertaken for portfolios with respect to a pricing index.

The dynamic risk management undertaken for portfolios with respect to a pricing index, can be, I do not know, the principal impact has relation with taxation laws, the restriction of some activities about some products in each country can results direct impact in the pricing index.

(b) How is the pricing index determined for these portfolios? Do you think that this pricing index would be an appropriate basis for applying the PRA if used in dynamic risk management? Why or why not? If not, what criteria should be required? Please explain your reasons.

I do not know the pricing index determined for these portfolios, but I understand that this pricing index would be an appropriate basis for applying the PRA if used in dynamic risk management.

(c) Do you think that the application of the PRA would provide useful information about these dynamic risk management activities when the pricing index is used in dynamic risk management? Why or why not?

Yes, I think that the application of the PRA would provide useful information about these dynamic risk management activities when the pricing index is used in dynamic risk management.

Question 15—Scope

(a) Do you think that the PRA should be applied to all managed portfolios included in an entity's dynamic risk management (ie a scope focused on dynamic risk management) or should it be restricted to circumstances in which an entity has undertaken risk mitigation through hedging (ie a scope focused on risk mitigation)? Why or why not? If you do not agree with either of these alternatives, what do you suggest, and why?

I do not have certain if the PRA should be applied to all managed portfolios included in an entity´s dynamic risk management, because, if the restricted to circumstances in which an entity has undertaken risk mitigation through hedging, I do not certain can include specific points about taxation laws that depends of the country the results can be very different in relation the application.

(b) Please provide comments on the usefulness of the information that would result from the application of the PRA under each scope alternative. Do you think that a combination of the PRA limited to risk mitigation and the hedge accounting requirements in IFRS 9 would provide a faithful representation of dynamic risk management? Why or why not?

Yes, I think that a combination of the PRA limited to risk mitigation and the hedge accounting requirements in IFRS 9 would provide a faithful representation of dynamic risk management.

(c) Please provide comments on the operational feasibility of applying the PRA for each of the scope alternatives. In the case of a scope focused on risk mitigation, how could the need for frequent changes to the identified hedged sub-portfolio and/or proportion be accommodated?

I have doubt in relation the scope alternatives for risk mitigation in the application for identified hedged sub-portfolio and/or proportion be accommodated, principally in relation when the organization can prepare cash flows.

(d) Would the answers provided in questions (a)–(c) change when considering risks other than interest rate risk (for example, commodity price risk, FX risk)? If yes, how would those answers change, and why? If not, why not?

Yes, I do not know if the contracts can impact of decision of type of risk and limitation about taxation, I will understand that for future the operations about hedge and risk with different applications can modify the cash flows. However, I have doubt in relation the interest rate and the percentage of risk in the cash flows. So, in this case, I suggest for the Board´s if agrees, consults Keys International Regulators for to know if the result of cash flow for operation can impact in the structure of the contract elaborate of organizations and associated risk in this case, because is very complex.

Question 16—Mandatory or optional application of the PRA

(a) **Do you think that the application of the PRA should be mandatory if the scope of application of the PRA were focused on dynamic risk management? Why or why not?**

Yes, I think that the application of the PRA should be mandatory if the scope of application of the PRA were focused on dynamic risk management.

(b) **Do you think that the application of the PRA should be mandatory if the scope of the application of the PRA were focused on risk mitigation? Why or why not?**

Yes, I think that the application of the PRA should be mandatory if the scope of the application of the PRA were focused on risk mitigation.

Question 17—Other eligibility criteria

(a) Do you think that if the scope of the application of the PRA were focused on dynamic risk management, then no additional criterion would be required to qualify for applying the PRA? Why or why not?

(i) Would your answer change depending on whether the application of the PRA was mandatory or not? Please explain your reasons.

(ii) If the application of the PRA were optional, but with a focus on dynamic risk management, what criteria regarding starting and stopping the application of the PRA would you propose? Please explain your reasons.

This question has relation the results of the number 15, I agree that the scope of the application of the PRA were focused on dynamic risk management then no additional criterion would be required to qualify for applying the PRA, but I do not have certain about the relation of this subject with contract that the organization uses for elaborate the procedures for financial statements.

(b) Do you think that if the scope of the application of the PRA were to be focused on risk mitigation, additional eligibility criteria would be needed regarding what is considered as risk mitigation through hedging under dynamic risk management? Why or why not? If your answer is yes, please explain what eligibility criteria you would suggest and, why.

(i) Would your answer change depending on whether the application of the PRA was mandatory or not? Please explain your reasons.

(ii) If the application of the PRA were optional, but with a focus on risk mitigation, what criteria regarding starting and stopping the application of the PRA would you propose? Please explain your reasons.

This question has relation the results of the number 15, I agree that the scope of the scope of the application of the PRA were to be focused on risk mitigation, additional eligibility criteria would be needed regarding, but I do not have certain about the relation of this subject with contract that the organization uses for elaborate the procedures for financial statements.

Question 18—Presentation alternatives

(a) Which presentation alternative would you prefer in the statement of financial position, and why?

(b) Which presentation alternative would you prefer in the statement of comprehensive income, and why?

(c) Please provide details of any alternative presentation in the statement of financial position and/or in the statement of comprehensive income that you think would result in a better representation of dynamic risk management activities. Please explain why you prefer this presentation taking into consideration the usefulness of the information and operational feasibility.

The both presentation alternatives are good, but I understand that the new focus has relation with vision of organization for risk management, I do not know if the statement of financial position can be more useful as item 6.1.4 "…a line-by-line gross up—the carrying amounts of the exposures included within the managed portfolio would be adjusted to reflect the revaluation for the managed risk."

In relation the statement of comprehensive income, I agree with comments of this exposure draft, so, I think that probably the notes about some points in the comprehensive income needs to include in the financial statements for informations or details about the operation.

Question 19—Presentation of internal derivatives

(a) If an entity uses internal derivatives as part of its dynamic risk management, the DP considers whether they should be eligible for inclusion in the application of the PRA. This would lead to a gross presentation of internal derivatives in the statement of comprehensive income. Do you think that a gross presentation enhances the usefulness of information

provided on an entity's dynamic risk management and trading activities? Why or why not?

I do not know if gross presentation enhances the usefulness of information provided on an entity´s dynamic risk management and trading activities, because in this case I do not have knowledge if the contracts have some information that impact for internal derivatives in the organization.

(b) Do you think that the described treatment of internal derivatives enhances the operational feasibility of the PRA? Why or why not?

I do not know if the described treatment of internal derivatives enhances the operational feasibility of the PRA, because in this case I do not have knowledge if the contracts have some information that impact for internal derivatives in the organization.

(c) Do you think that additional conditions should be required in order for internal derivatives to be included in the application of the PRA? If yes, which ones, and why?

I suggest for the Board´s, if agrees, that consult the key international regulators for to observed the contracts for derivatives in the organizations.

Question 20—Disclosures

(a) Do you think that each of the four identified themes would provide useful information on dynamic risk management? For each theme, please explain the reasons for your views.

Yes, I think that each of the four identified themes would provide useful information on dynamic risk management.

(b) If you think that an identified theme would not provide useful information, please identify that theme and explain why.

Yes, I think that an identified theme would not provide useful information.

(c) What additional disclosures, if any, do you think would result in useful information about an entity's dynamic risk management? Please explain why you think these disclosures would be useful.

I do not know if has additional disclosures, because in this case I do not have knowledge if the contracts have some informations that impact for dynamic risk management in the organization.

Question 21—Scope of disclosures

(a) **Do you think that the scope of the disclosures should be the same as the scope of the application of the PRA? Why or why not?**

Yes, I think that the scope of the disclosures should be the same as the same of the application of the PRA.

(b) **If you do not think that the scope of the disclosures should be the same as the scope of the application of the PRA, what do you think would be an appropriate scope for the disclosures, and why?**

I understand that the Board´s needs to observe the contracts for risk management that can have impact for decisions in the organization, I do not know.

Question 22—Date of inclusion of exposures in a managed portfolio

Do you think that the PRA should allow for the inclusion of exposures in the managed portfolios after an entity first becomes a party to a contract? Why or why not?

(a) **If yes, under which circumstances do you think it would be appropriate, and why?**

(b) **How would you propose to account for any non-zero Day 1 revaluations? Please explain your reasons and comment on any operational implications.**

This question depends of questions 15 – 21, I understand that the Board´s needs to observe the contracts for risk management that can have impact for decisions in the organization, I do not know. I agree that PRA should allow for the inclusion of exposures in the managed portfolios after an entity becomes a party to a contract.

Question 23—Removal of exposures from a managed portfolio

(a) **Do you agree with the criterion that once exposures are included within a managed portfolio they should remain there until derecognition? Why or why not?**

I agree with the criterion that once exposures are included within a managed portfolio they should remain there until derecognition.

(b) Are there any circumstances, other than those considered in this DP, under which you think it would be appropriate to remove exposures from a managed portfolio? If yes, what would those circumstances be and why would it be appropriate to remove them from the managed portfolio?

None. There are not any circumstances, other than those considered in this DP.

(c) If exposures are removed from a managed portfolio prior to maturity, how would you propose to account for the recognised revaluation adjustment, and why? Please explain your reasons, including commenting on the usefulness of information provided to users of financial statements.

If exposures are removed from a managed portfolio prior to maturity, the recognized revaluation adjustment need to include in notes or in specific informations with details about this information in the financial statements.

Question 24—Dynamic risk management of foreign currency instruments

(a) Do you think that it is possible to apply the PRA to the dynamic risk management of FX risk in conjunction with interest rate risk that is being dynamically managed?

(b) Please provide an overview of such a dynamic risk management approach and how the PRA could be applied or the reasons why it could not.

I do not know, because the application the PRA to the dynamic risk management that do not have good internal controls in the organizations can be very complex for to describe these informations in the financial statements, I do not know.

Question 25—Application of the PRA to other risks

(a) Should the PRA be available for dynamic risk management other than banks' dynamic interest rate risk management? Why or why not? If yes, for which additional fact patterns do you think it would be appropriate? Please explain your fact patterns.

(b) For each fact pattern in (a), please explain whether and how the PRA could be applied and whether it would provide useful information about dynamic risk management in entities' financial statements.

I do not know, because the application the PRA for the others risks that do not have good internal controls in the organizations can be very complex for to describe these informations in the financial statements, I do not know.

Question 26—PRA through OCI

Do you think that an approach incorporating the use of OCI in the manner described in paragraphs 9.1–9.8 should be considered? Why or why not? If you think the use of OCI should be incorporated in the PRA, how could the conceptual and practical difficulties identified with this alternative approach be overcome?

Yes, I think that an approach incorporating the use of OCI in the manner described in paragraphs 9.1 – 9.8 should be considered.

Thank you for opportunity for comments this proposal, if you have questions do not hesitate contact to me, rio1042370@terra.com.br.

Yours,
Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
5521993493961