

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – NOVATION OF DERIVATIVES AND CONTINUATION OF HEDGE ACCOUNTING

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in February 2013.

Our comments on the proposed amendments in the ED are as follows:

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?

We believe that in the specific situation where regulatory changes lead to novation of derivatives to a central counterparty, discontinuation of all hedging relationships affected would result in more hedge ineffectiveness which is likely to be pervasive in jurisdictions where such novations is required by law or regulations. These novations are not intended to change the nature of the hedging relationship, and therefore the discontinuation of hedge accounting would not provide useful information to users of financial statements. We are also of the view that with the proposed amendments, the entity continues to meet the substantive hedging conditions required for the application of hedge accounting even after the hedging instrument has been novated to a central counterparty. We therefore agree with the proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* which allows an entity to continue hedge accounting if the proposed conditions are met.

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 agree that the scope of the proposed amendment will provide relief for all novations arising from such legislation or regulations.

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.

Do you agree? Why or why not?

We agree with the proposal for the requirements to be included in IFRS 9 for the reasons as stated in our response to Question 1.

Question 4:

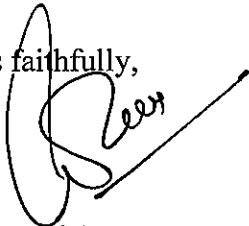
The IASB considered requiring disclosures when an entity does not discontinue hedge accounting as a result of a novation that meets the criteria of these proposed amendments to IAS 39. However, the IASB decided not to do so in this circumstance for the reason set out in paragraph BC13 of this proposal.

Do you agree? Why or why not?

We agree with IASB that no specific disclosures are required because from the perspective of a user of financial statements, the hedge accounting would be on-going. This is consistent with the current IFRS 7 *Financial Instruments: Disclosures*, which does not require such disclosures on other on-going hedging relationships.

Should you require any further clarification, please feel free to contact Mr Benjamin Oh, Manager, Technical Standards Development and Advisory, from ICPAS via email at benjamin.oh@icpas.org.sg.

Yours faithfully,



Ms Lim Ai Leen
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Technical Knowledge Centre and Quality Assurance