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香港保險業聯會

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Our Ref : Lv060/14

By Email Only (commentletters@hkicpa.org.hk)

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Mr Simon Riley
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Hong Kong Institute of Certified Public Accountants
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Dear Mr Riley

Invitation to comment on IASB Discussion Paper of Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Marco Hedging

Thank you for your letter dated 28 May 2014, inviting us to comment on the subject matter.

We have consulted our member companies, and their comments are as follows:

- Since specific risks are to be identified and monitored, it is necessary to allocate the valuation change of a hedged item to the specific risks (rather than the whole hedged item). On the other hand the change in value of the hedging instrument to be offset is also limited to the part that intended to hedge the specific risks being monitored. As a result it is necessary to consider how to ascertain the value change due to the hedged risk of both the hedged items and the hedging instrument. More guidelines and examples are required to demonstrate how to handle for different type of risks.

- The proposed charging of change in value of both hedged items and hedging instruments to profit or loss is different from current hedging practice whereby both are charged to other comprehensive income ("OCI") and the net or the ineffective portion will be recycled or charged to profit or loss. It is required to provide guideline on the handling of hedged items classified as AFS including whether its change in value shall be split to those attributable to hedged risk (e.g. charging to profit or loss) and the unhedged risk (e.g. charging to OCI).

- The consideration of behavioural factors affecting the managed risk (e.g. variable interest rate demand deposits are considered as a source of stable fixed interest rate funding, callable demand deposits are considered are assumed to have zero fair value risk, Ref: Lv060/14

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prepayment behaviour of prepayable instruments) are subjective and may not be of same treatment (or level of treatment) among entities of same industry. Conceptually expected cashflow of exposure also differs from its contractual lives and will lead to different recognition patterns of gains and losses. More guidelines and examples are required to demonstrate how to exercise the judgement and the setting of objective criteria to reduce the subjective judgement is desirable.

- Need to determine if exposures eligible for PRA should be limited to those recognisable for accounting purposes or not. This will result in gap between risk managers and accountants (e.g. exposures not yet contracted). Should judgement be required it is necessary to provide more guideline and examples.

- The discussion focuses on the dynamic risk management of interest rate risk. Same level of details including guideline and examples shall be explored on other risks.

We look forward to hearing your views on the observations set out above.

Yours sincerely

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Selina Lau
General Manager
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