CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

" FRED 51 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland Hedge Accounting"

Question 1
Do you support the adoption in FRS 102 of the three hedge accounting models as set out in this FRED? If not, why not?

We are in agreement with the three hedging models as proposed by FRED 51.

Question 2
Do you agree with the overarching principle of setting the requirements for hedge accounting in a way that can be straightforwardly applied by entities undertaking relatively simple economic steps to manage risk? If not, why not?

We are in agreement on this.

Question 3
The draft amendments to FRS 102 require an economic relationship between the hedging instrument and hedged item. Do you agree with this approach to establishing whether a hedging relationship exists? If not, why not?

We agree with this approach but would request guidance on how this should be determined.

Question 4
The draft amendments have the effect of removing the requirement to make a binary assessment at the beginning of a hedging relationship that defines that hedge as effective or ineffective. The effect of this would be to allow hedge accounting to be used for the effective portion of any relationship meeting the qualifying conditions. Do you agree with this approach? If not, why not? If you envisage practical application difficulties, please provide an illustration of these.

We agree with this approach.

Question 5
The draft requirements for net investment hedges state that when a hedging relationship is discontinued, amounts deferred in equity may not be reclassified to profit or loss. This is to achieve consistency with paragraphs 9.18A and 30.13 of FRS 102. Do you agree with this proposal, or should recycling of gains or losses on hedging instruments be permitted regardless of the mismatch with the foreign currency movements?

We agree with this proposal.

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Question 6
The draft amendments propose an alteration to Section 11 of FRS 102 to broaden the range of instruments that may be designated at fair value through profit or loss, with the effect of allowing, in some cases, economic hedging. Do you agree with these changes? If not, why not?

We agree with these proposed changes.

Question 7
Included as non-mandatory guidance in the draft amendments are examples of the three proposed hedge accounting models (Appendix to Section 12). In your view, are these examples helpful application guidance of the requirements of paragraphs 12.15 to 12.25? If not, please provide examples of hedges that could be more usefully included.

The examples provided in the appendix will provide in some way explanations to practitioners for the principles and accounting concepts, however they are not that challenging and some more complex examples should be provided, in particular for “Cash Flow Hedges”

Question 8
The draft amendments propose a transitional exemption which will allow certain one-off remeasurements of hedging instruments and hedged items at the transition date. Do you believe that these exemptions facilitate application of hedge accounting to arrangements in place at transition? If you have reservations, please tell us why and provide details of alternative transitional arrangements.

We agree that these exemptions should facilitate application of hedge accounting to arrangements in place at transition.

Other Comments

We recommend that the Glossary of Definitions should include a definition of the term "net written options”.

If you have any questions on the above please do not hesitate to contact me.
Yours sincerely,

David Roxburgh
Chairperson, Financial Reporting Sub - Committee