Crowe Clark Whitehill LLP
Chartered Accountants
Member of Crowe Horwath International
St Bride's House
10 Salisbury Square
London EC4Y 8EH, UK
Tel +44 (0)20 7842 7100
Fax +44 (0)20 7583 1720
DX: 0014 London Chancery Lane
www.croweclarkwhitehill.co.uk

13 February 2014

Susanne Pust Shah
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Our Ref: SJG/AJC

Dear Ms Shah

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

We welcome the opportunity to comment on the exposure draft of FRED 51

Please do not hesitate to contact me if I can provide any further information or explanation on the points raised in the attached response.

Yours sincerely

Alan Churchard

Alan Churchard
Technical Director
Crowe Clark Whitehill LLP
Direct dial: 020 7842 7176
alan.churchard@crowecw.co.uk

Enc

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?

Yes we support the adoption of three hedge accounting models as set out in the exposure draft. Defining hedging according to different types of hedge relationship is far more understandable than the current definitions within FRS 102.

We do, however consider paragraph 12.19A to be unhelpful. We believe it would be more appropriate to require that such hedges are all either treated as fair value hedges or cash flow hedges. The standard should, at least, clarify that an entity should determine its policy to apply either cash flow hedging or fair value hedging to such transactions and consistently apply this policy for all similar transactions

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 agree that 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 is most appropriate. This approach is consistent with that taken for the rest of FRS 102 and sets out the requirements in a manner that is appropriate to the majority of entities that will apply FRS 102.

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 the approach that requires an economic relationship between the hedging instrument and hedged item. The approach should be understandable to most entities that will apply FRS 102.

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 do agree that the approach removing the assessment of a hedge as effective or ineffective on inception. If the requirement to permit hedge accounting only for an effective hedge remained we believe it would prevent the application of hedge accounting in many of the situations it might otherwise apply for entities applying FRS 102.

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 do agree that when a net investment hedge is discontinued the amounts deferred in equity should not be reclassified to Profit or Loss. This provides consistency with the treatment of the disposal of a foreign operation when the net investment method is used.

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 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 of hedging provided in the Appendix to Section 12 provide most helpful application guidance. This will assist many accountants applying FRS 102 who may not have previous experience in applying hedge accounting. In considering the specific examples provided, Examples 1 and 3 provide excellent guidance but we consider that example 2 should be removed. In practice most entities would not use hedging to change a fixed interest rate into a floating interest rate. This could be very misleading if this example was attempted to be used for an entity that has used a swap instrument to fix a future interest liability and create a cash flow hedge. An alternative example of a fair value hedge would be more helpful. A foreign currency hedge of an unrecognised firm commitment may be helpful.

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 the transitional exemption will facilitate application to hedge accounting arrangements. We do, however, note that the requirement to have recorded the hedging requirement in writing at the transition date will be impossible in practice for many entities as these amendments will not come into force until after the date of transition for many entities.