

International Financial Reporting Standards

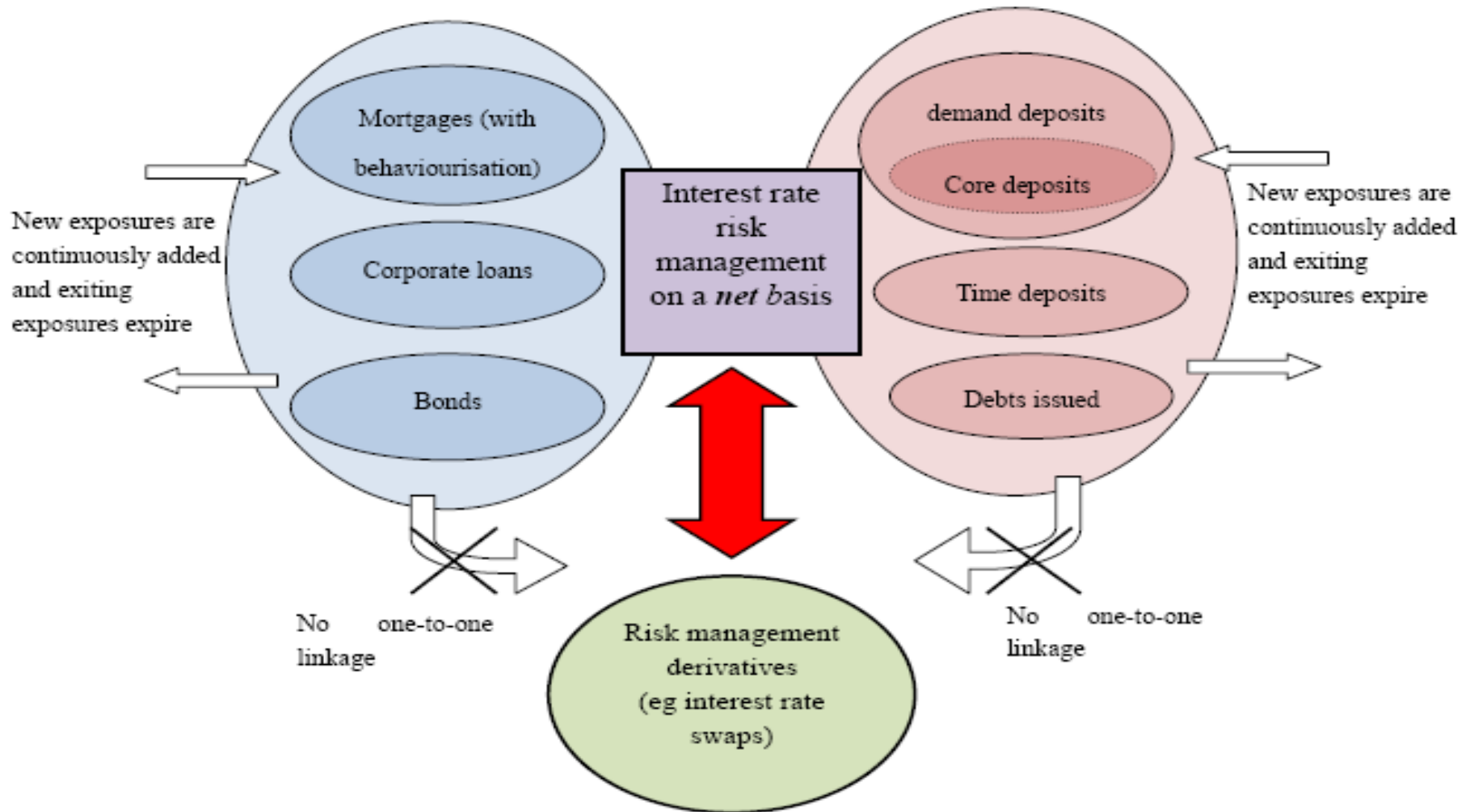


Accounting for Macro Hedging Update September 2013

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

- Accounting for **open** portfolios that are **dynamically** managed.
- Hedge accounting is difficult to apply.
- Considering a variety of dynamic risk management activities. Not restricted to banks' interest rate risk management, eg commodity and FX risk.

Dynamic interest rate risk management in banks

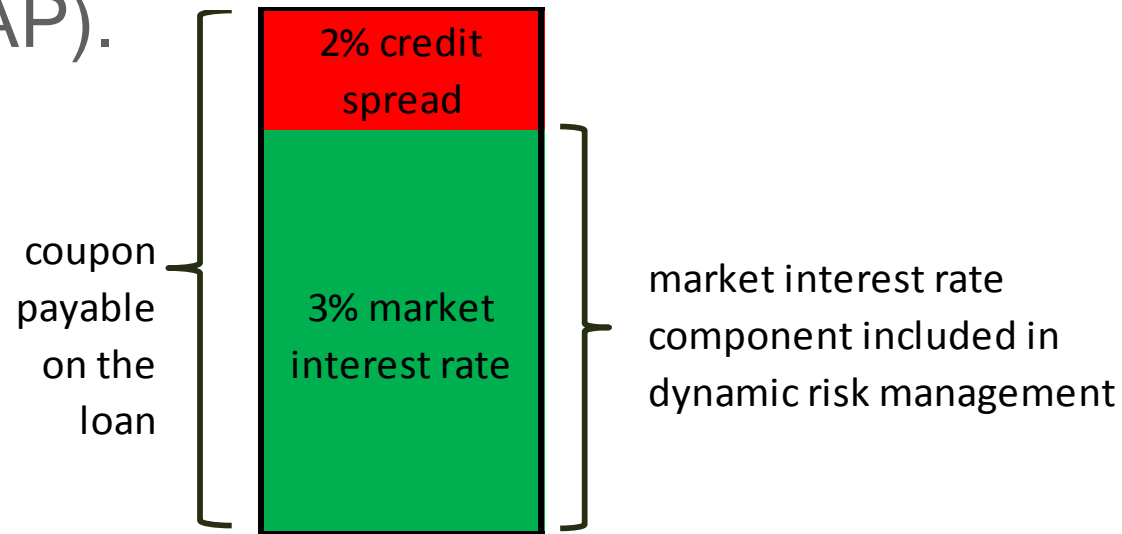


Portfolio revaluation approach overview

- The portfolio revaluation approach itself is simple.
- Exposures are revalued with respect to the managed risk.
- No change to accounting for hedging instruments (FVTPL).
- Offset arises in profit or loss, to the extent of offsetting risk positions. Economic volatility is portrayed consistent with risk management.
- Operational feasibility. No requirement for specific linkage of exposures and hedging instruments.

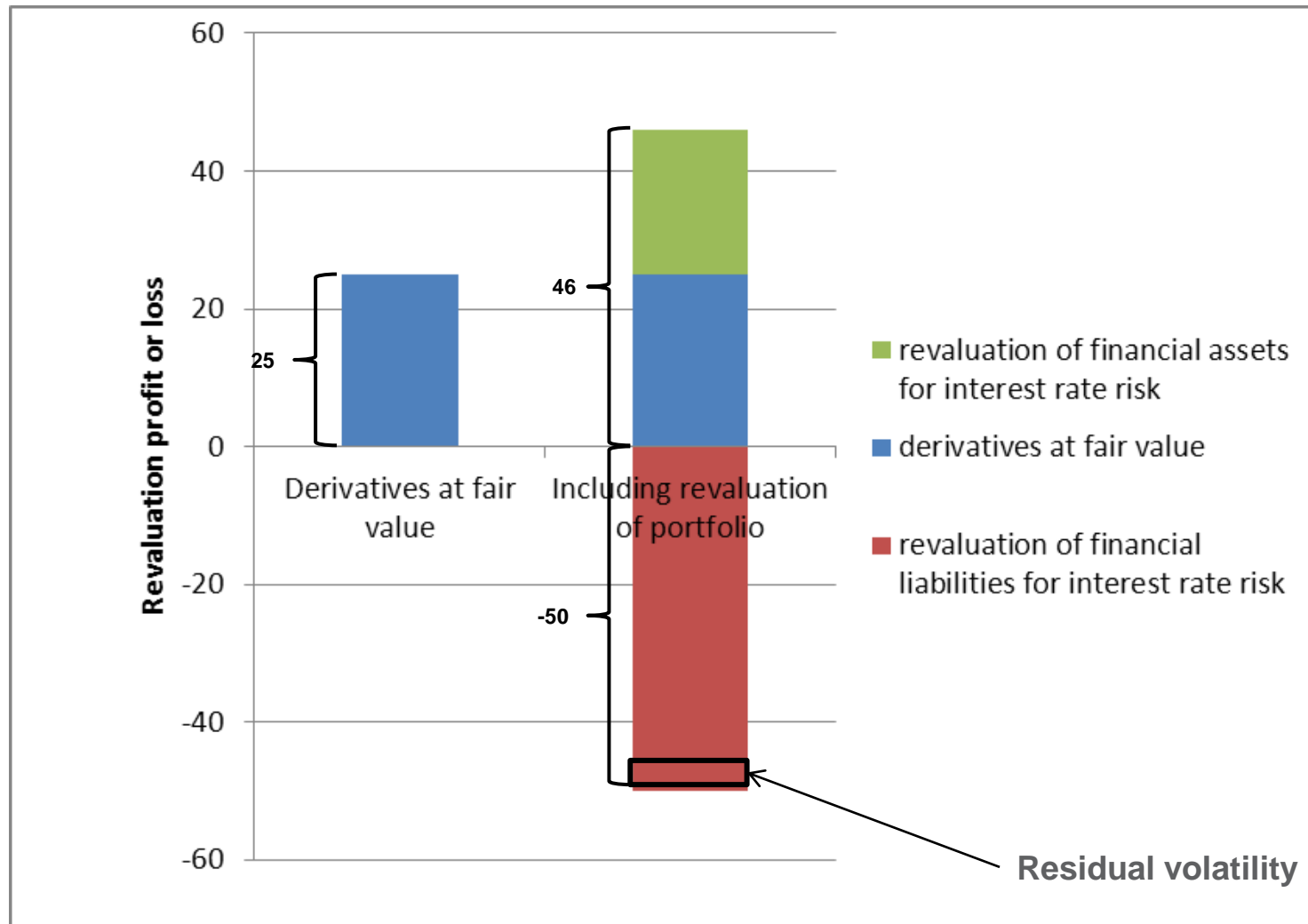
How to revalue

- Individual exposures revalued by calculating **net present value** (NPV) of cashflows with respect to prevailing market **benchmark** interest rates (eg LIBOR-SWAP).



- This approach is **NOT** a full fair value model.

Mechanics of the portfolio revaluation approach



What to be revalued (scope alternatives) – key question

1

All banking book exposures

2

Dynamically managed banking book portfolios

Unmanaged or static risk management

3

Sub portfolio Sub portfolio Dynamically managed banking book portfolios Sub portfolio Sub portfolio

Unmanaged or static risk management

4

Dynamically managed banking book portfolios

Unmanaged or static risk management

Apply revaluation approach

Do not apply revaluation approach

Thank you

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