



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera
Group of Latin-american
Accounting Standard Setters

April 2, 2013

International Accounting Standards Board

30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft (ED/2013/2) on Novation of Derivatives and Continuation of Hedge Accounting

Dear Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS¹ welcomes the opportunity to comment on the Exposure Draft on *Novation of Derivatives and Continuation of Hedge Accounting* (the ED).

This response summarizes the views of our country-members, in accordance with the following due process.

Due-process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in March 2013. All country-members had the opportunity to designate at least one member to participate in this TWG, and the following countries did so: Argentina, Bolivia, Brazil, Chile, Colombia, Mexico (coordinator of this TWG), and Uruguay.

Overall comments

The novation of derivatives is an issue that arises from new legislation in several countries, geared to better control derivative financial instruments (derivatives) entered into by entities of such countries outside a recognized market (the over the counter derivatives – OTC derivatives), through a central clearing agency, or similar institution, where all derivatives will have to be listed in order that they may have legal effects in the country. We support the conclusion reached by the IASB on how to deal with this issue for financial reporting purposes.

Therefore, it is a one-time event and not a recurring event. We wonder if this transaction could be better dealt with through an interpretation rather than through an amendment of IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, *Financial Instruments*.

We are including some detailed comments in our answers to the specific questions in the attachment to this letter.

Specific comments

Attached please find our responses to the questions posed in the ED.

¹ The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect of all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Brazil (Chairman), Argentina (Vice Chairman), Colombia (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru, Dominican Republic (observer) and El Salvador (observer).



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If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Juarez Domingues Carneiro'.

Juarez Domingues Carneiro

Chairman

Group of Latin American Accounting Standard Setters (GLASS)



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**GLASS' Comment Letter on the
IASB Exposure Draft on Novation of Derivatives and Continuation of Hedge Accounting.**

The Group of Latin American Accounting Standards Setters (GLASS) welcomes the opportunity to submit its comments on the Exposure Draft ED/2013/2 on *Novation of Derivatives and Continuation of Hedge Accounting* (the ED) issued for exposure on February 28, 2013. Set forth below you will find our comments on the specific questions posed in the ED.

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 agree with the proposal, as far as the hedging relationship continues in substance to be effective.

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 should be limited to those cases in which the novation is due to current changes in legislation or regulations. As we indicated before, being a one-time event we believe this issue could have been better dealt with through an interpretation, unless the Board wants to set a principle for similar cases that may arise in the future.

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*



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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 believe that the same amendments will be needed for chapter 6 of IFRS 9, in order that the amendments be consistent for both standards.

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?

If there is no change in substance, i.e. if the derivative continues to provide effective hedging, there is no need for additional disclosure, since, as indicated in BC 13, "...from the perspective of a user of financial statements, the hedge accounting would be on-going."

Other comments:

Our research of upcoming legislation indicates that, at this moment, the only country that is in process of establishing such legislation is Mexico. However, since under the general principles of Roman law, which governs Mexican legislation, a law can only have prospective application and retroactive application cannot be required, only future derivatives will require the use of central counterparties. The representatives of other countries in the TWG indicated that this would also be the case in their countries, if new legislation is enacted.

Some countries, such as Brazil and Argentina, already have a central counterparty established by law to control derivatives of futures of foreign currency, which has been in effect for several years.