



SAS Quadra 05. Bloco J. CFC  
Brasília, Distrito Federal – Brazil  
[www.cpc.org.br](http://www.cpc.org.br)

April 1, 2013

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft (ED/2013/02) on Novation of Derivatives and Continuation of Hedge Accounting**

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)<sup>1</sup> welcomes the opportunity to respond the Exposure Draft (ED/2013/2) on Novation of Derivatives and Continuation of Hedge Accounting.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

**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.

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<sup>1</sup> The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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We agree with such proposal, considering that in substance of the derivative remains the same as before the novation of the hedging instrument.

### **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, representing a relief in those cases.

We point out that this case does not occur in Brazil. However, we already have a central clearing house that registers all derivatives in order to legally validate them, but this clearing entity is not allowed to be the counterparty of the instrument.

### **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 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.

We would like to add that, considering the nature of this current revision in IAS 39, we believe that this issue could have been better dealt with through an interpretation, instead of a change in the standard itself.



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#### 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."

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior'.

Idésio da Silva Coelho Júnior  
Chair of International Affairs  
Comite de Pronunciamentos Contabeis (CPC)