

Joint Field-Testing on General Hedge Accounting

Background

- 1 In December 2010, the IASB published the Exposure Draft *Hedge Accounting* ('the ED'). The ED introduces significant changes to the current general hedge accounting requirements. The IASB's work plan foresees the issuance of the final standard in the second half of 2012. EFRAG staff expects that the Review Draft will be published in March 2012.
- 2 In order to perform an initial assessment of the new requirements, EFRAG is planning to conduct jointly with the standard setters a field-testing of the revised IASB proposals on general hedge accounting.
- 3 The results of the field-test will be shared with the IASB in order to ensure that the final proposals will provide the most useful information and maintain the appropriate trade-off between cost for preparers and benefits for users.
- 4 Standard setters and EFRAG staff had an initial conference call on 27 January 2012. The objective of the conference call was the following:
 - (a) to confirm the purpose and approach of the field-testing on general hedge accounting;
 - (b) to explore who should carry out which parts of the work; and
 - (c) to consider which topics should be covered by the questionnaire, on the approach to select participants and on the provisional timetable.

Field-testing

Preliminary purpose

- 5 The purpose of the field-testing is to:
 - (a) identify fatal flaws, if any, in the Review Draft;
 - (b) test the operability of proposals by applying them to a sample of actual instruments and transactions so as to identify difficulties or limitations in the implementation and application;
 - (c) assess the quality and effects of the future accounting standard;
 - (d) assess the usefulness of the information that results from applying the proposals; and
 - (e) estimate the effort required to implement and apply the proposals.

- 6 The input obtained will be used as input to the drafting of any EFRAG draft endorsement advice on general hedge accounting, including the costs and benefits analysis.

Approach of the field testing

- 7 EFRAG is considering conducting this consultation by way of written questionnaires. Although there might be other available approaches such as meetings with organisations, direct telephone calls or conference calls with certain companies, past experience suggests that this is the most useful and efficient way to collect information in a structured way. By using written questionnaires, the feedback received can be processed and analysed more easily.
- 8 The field-test should first gather feedback from preparers through written questionnaires. Separately, input would be collected from the EFRAG's working groups (i.e. FIWG, IAWG and User Panel).
- 9 Regarding the participation of users in the field-test, standard setters may want to obtain direct input from them, taking advantage of the closer relationship with user communities in their respective countries.
- 10 EFRAG staff and standard setters will schedule introductory calls and follow-up calls (about 15 minutes) with participants in order to explain the objectives of the field-test, introduce the questionnaire, understand the results and ask for any clarifications.
- 11 During the field-testing period, participants may raise questions concerning the questionnaire which they should be address to their point of contact, which will be staff of EFRAG or the standard setters. In answering these questions, EFRAG and standard setters will not provide interpretations on the Review Draft as this would diminish the usefulness of the findings. Participants will be asked to document any interpretations made during the field-test in the questionnaire.
- 12 Standard setters might want to conduct the field-test in their countries directly. Where that is the case, all the information gathered will be shared between the standard setters and EFRAG. To the extent that information cannot be shared, it would not be included in the overall feedback report.
- 13 EFRAG is organising industry workshops in connection with the revenue recognition field-test. EFRAG and standard setters will consider at a later stage whether or not that would be helpful based on the questionnaire's results. However, this should not preclude standard setters from organising local workshops at their discretion with the companies that will participate in the field-test.
- 14 Information will be shared between EFRAG staff and standard setters through a specific EFRAG webpage which should make available the questionnaires received and any documents related to field-test. EFRAG and standard setters will inform participants in the field-test that all the information will be shared between standard setter, EFRAG and the IASB staff.
- 15 EFRAG staff will draft a feedback report on the results of the field-test that will be reviewed by the standard setters.
- 16 EFRAG staff aims to focus on the preparation of the questionnaire and analysis of the results. EFRAG staff will also jointly coordinate the follow up on any issues arising during the process, organise a workshop (if any), coordinate with IASB staff and liaise with EFRAG TEG, FIWG, IAWG and User Panel.

- 17 The IASB will be involved as follows:
- (a) They will provide feedback on the questionnaire that will be used for the field-test;
 - (b) They will provide input on the sampling of participants in the field testing; and
 - (c) They will offered to participate in calls or meetings with participants, but this should not result in delays in the process.

Who should participate?

- 18 EFRAG staff and standard setters understand that entities in the following industries will most likely be affected by the proposals:
- (a) Banking;
 - (b) Insurance and pension funds;
 - (c) Investment services;
 - (d) Energy;
 - (e) Commodity;
 - (f) Utilities; and
 - (g) Airlines.

While it is important that these industries are covered, there is not restriction on which companies can participate in the field-test.

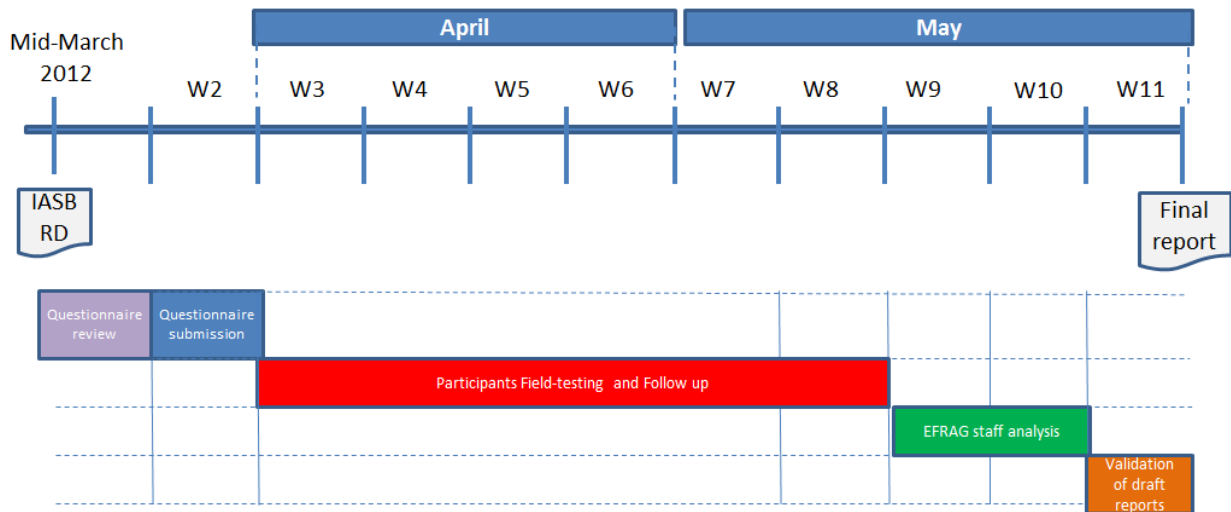
- 19 Feedback would be first sought from preparers through the use of questionnaires. EFRAG staff will issue a news item with an invitation to participate in the field-test questionnaire. This is expected to take place during the first week of March, since the questionnaire should be close to being final. The invitation will include the contact details of standard setters. This way of recruiting participants may be complemented with other mechanisms such as direct invitation of standard setters to certain selected companies.
- 20 EFRAG staff and standard setters estimates that if 40 to 60 constituents were to participate this should result in a sufficiently large sample to ensure that any concerns that exist will be indentified.

Suggested topics for the questionnaire – Outline

- 21 EFRAG staff has prepared an initial draft questionnaire that will be discussed with the standard setters in order to obtain further suggestions and input.

Timetable

22 Below is included the provisional timetable for the field-testing process:



23 Once the Review Draft is issued, the following activities will take place:

- (a) The timetable will be finalised;
- (b) EFRAG staff and standard setters will provide participants with the Review Draft; and
- (c) The questionnaire will be reviewed by EFRAG staff and the standard setters and will be sent to participants by the end of the second week.

24 Participants will have six weeks to carry out the field-test. However, EFRAG staff will endeavour to include in the analysis as many questionnaires received subsequently as possible.

25 For consistency purposes, EFRAG staff will perform the analysis of the questionnaires which should be finalised within two weeks.

26 The selection of participants should be done in advance. EFRAG staff would suggest having an initial list confirmed by 29 February 2012.