

8 May 2018

Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Ms Lloyd

Tentative agenda decision – IFRS 9 *Financial Instruments*: Hedge accounting with load following swaps

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the application of the 'highly probable' criterion for cash flow hedge accounting applies to a hedge relationship in which the notional amount of the hedging instrument (a 'load following swap') varies depending on the outcome of the hedged transaction.

We accept the Interpretations Committee's decision not to add this item onto its agenda, but are concerned that a statement only that "the financial instrument described in the request is not common" provides no guidance to preparers of financial statements and could give rise to divergence in practice.

Load following swaps in particular may not be in common use across the world (although they are increasingly common in certain industries in certain jurisdictions), but there is a broader population of instruments with a contractual link to the transaction they are designed to hedge (for example, deal contingent swaps that take effect only if an uncertain transaction occurs). Such instruments are common when hedging the foreign currency risk of a forecast business combination with consideration denominated in a foreign currency. These can only be expected to become more common as markets develop, as by avoiding any potential mismatch between, for example, the notional of a derivative and the notional of a hedged transaction that can be subject to change they can be (economically) very attractive hedging instruments for risks such as the price of crops harvested in the future (so, for which the volume is inherently uncertain).

We believe the basis for determining the highly probable criteria in the case where the notional of the hedging instrument may vary, which examples include load following swaps and deal-contingent forwards, would benefit from clarification. Rather than the focus on one example over the other, the Committee could consider the simpler question of whether for a transaction to be highly probable it must be identified as a specified fixed amount. We believe guidance on how (if at all) the hedge accounting requirements of IFRS 9 cater for such a hedge designation is necessary to help guide practice in this developing area.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized, flowing script.

Veronica Poole
Global IFRS Leader