Purpose of the paper

1. The diagram on the next page provides an overview of the alternatives discussed in agenda paper 21B and the key considerations under each alternative.
Hedges of credit risk using CDSs (AP 21A)

Alt 1—Revocable FV accounting
- Not fully aligned with credit risk management strategy
- Potential for earnings management
- ‘Accounting disincentive’

Alt 2—Elective FV accounting (MCA profit or loss)
- Aligns with credit risk management strategy
- Complex

Alt 3—Elective FV accounting (MCA amortised/deferred)
- Aligns with credit risk management strategy

- Too restrictive
- Does not cover loan commitments in IAS 37
- Not aligned with credit risk management strategy

Risk component not measurable

Expand scope or amend HA framework

FVO under IFRS 9

FV hedge accounting

MCA = measurement change adjustment—the difference that could arise between fair value and the carrying amount of the instrument when FV accounting is elected after initial recognition.