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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Sir or Madam,

Czech National Bank would like to express sincere thanks the Board for this opportunity to comment on the exposure draft of proposed **Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk**. In general, we support the Board's efforts to more closely align disclosure, presentation, recognition and measurement of financial instruments with true and fair view / fair presentation.

Since 1st January 2002 accounting rules for financial institutions in the Czech Republic have been very similar to International Accounting Standards. Bridges between Czech accounting rules and IAS have almost disappeared due to our effort to adopt IAS. We are ready to change accounting rules in the future in the line with the changes of IAS.

We think that the concept of Basle risk categorisation used in Basle Capital Accord 1996 is suitable for IAS. The reason is that the Basle Capital Accord has adopted the best practices of risk measurement. Such practices are commonly used not only by banks but also by other entities. In this sense it is worth mentioning that there is only one kind of interest rate risk (which is known in IAS 32 as “fair value interest rate risk”). The “cash flow interest rate risk” is not considered by the Basle Capital Accord as a risk. The interest rate risk (i.e. fair value interest rate risk) reflects the extent to which assets, liabilities and off-balance sheet items (including those that are not marked to market according to accounting rules) of the entity are affected by changes in market interest rates (yield curves in different currencies). That is definition of the interest rate risk which corresponds to the current Basle Capital Accord and which is also suitable to IAS. We appreciate that the proposed exposure draft is based on this definition of interest rate risk.

We support the exposure draft mainly from the point of view that:

- **for all hedged balance sheet items should be used only fair value hedge accounting** and **cashflow hedge accounting for all hedged balance sheet items should be eliminated.**
- **demand deposits cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the holder can demand payment**. The reason for this statement lies in the words “core deposits”, i.e. deposits which stay all the time ready for withdrawal at any time. The splitting of core deposits into time periods by some banks is misleading and unjustifiable.

Our answers to both raised questions in the exposure draft are positive.

Yours sincerely,

Josef Jílek

Professor in Economics