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April 25, 2011

Technical Director
Financial Accounting Standards Board
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RE: FASB's Discussion Paper: Invitation to Comment - Selected Issues about Hedge Accounting to solicit input on the IASB's Exposure Draft, Hedge Accounting (File Reference No. 2011-175)

Dear Technical Director

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Discussion Paper - *Selected Issues about Hedge Accounting* (the Discussion Paper) issued on February 9, 2011 to solicit input on the International Accounting Standard Board's (IASB's) Exposure Draft, *Hedge Accounting*, (the ED or the proposals).

We support the development of a standard based on the core principles in the proposals. Hedge accounting is currently rules-based and requires detailed requirements to be met. The proposals adopt a more principles-based approach which includes aligning hedge accounting more closely with risk management. We agree with this directional change proposed by the IASB. However, we do have concerns about the clarity of certain principles in the proposals. In particular, risk management functions and activities vary from entity to entity and therefore it is important to get more clarity around the principle of aligning hedge accounting with risk management in order to achieve consistency of application. We discuss this and our other significant concerns below.

Our responses to the questions in the Discussion Paper are set out in Appendix A of this letter. In addition, Appendix B of this letter includes the comment letter on the ED submitted on March 9, 2011 by the global network of KPMG firms, including the US member firm.

Risk management

The proposed objective of hedge accounting makes an entity's risk management a determining factor in assessing whether hedge accounting can be applied. However, even though risk management is discussed in IFRS 7 *Financial Instruments: Disclosures* (IFRS 7), it is neither defined under IFRSs or International Standards on Auditing (ISAs) nor under US GAAP or US



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auditing standards. Entities may have difficulties aligning hedging relationships at the transaction level with risk management which is often applied at a higher level. Therefore, we are concerned that entities may interpret risk management in the context of the proposals differently and apply hedge accounting in situations the IASB did not intend or vice versa. This issue also would create difficulties in auditing an entity's assertion that it has aligned its hedging relationships with its risk management activities. We asked the IASB to clarify the objective of hedge accounting to address this issue.

In particular we asked the IASB to clarify whether it believes that risk management would need to include policies and processes at a lower level than entity-wide or other high level, such as an individual hedging strategy level, and if not, how linking such high-level policies and processes to individual hedging relationships could be achieved.

Risk components

We believe that the IASB should clarify the principles of 'separately identifiable' and 'reliably measurable' as they are key in determining the eligibility of risk components of financial and non-financial items as hedged items.

For example, it is unclear whether in order for a risk component to meet the separately identifiable and reliably measurable conditions any or all of the following are needed:

- A forward market for the hedged component for the hedging relationship period;
- A statistical correlation between the hedged component and the non-financial item and whether such correlation is based on the cost or fair value of the component and non-financial item; and
- Each component that makes up the non-financial item, and not just the hedged component, is separately identifiable and reliably measurable.

Effectiveness assessment

We support the removal of the current 'bright-line' quantitative thresholds for expected and actual effectiveness. However, the proposed qualitative descriptions are not sufficiently specific to drive consistent application. We believe that the IASB should clarify the principles of 'minimising expected hedge ineffectiveness' and 'producing an unbiased result'. As different readers of the proposals might interpret the principles differently, the proposals could create application challenges and auditing issues.

Convergence

We also note that the ED proposes changes that are significantly different from those proposed for hedge accounting under US GAAP in the FASB's comprehensive financial instruments accounting exposure draft published in May 2010. We continue to reiterate the importance of the



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IASB and the FASB working together to create a single set of high quality, converged global accounting standards related to hedge accounting. As noted above, we support the development of a standard based on the core principles in the proposals. The proposals adopt a more principles-based approach instead of the current rules-based standards that include detailed requirements. We agree with this directional change and believe that it would be an appropriate starting point for changes to US GAAP if certain principles in the proposals are clarified as noted in our responses to the FASB questions and comment letter on the ED.

If you have any questions about our comments or responses or wish discuss any of these matters further, please contact Enrique Tejerina at (212) 909-5530.

Sincerely,

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Appendix A – Responses to the FASB’s questions

Risk management

Question 1: *When an entity uses financial instruments to manage risk exposures in economic hedges but those instruments are not designated in hedging relationships for accounting purposes, do you believe that the proposed guidance would provide useful information about all of the effects of an entity’s risk management objectives?*

The proposals do not address situations when an entity economically hedges an exposure but does not apply hedge accounting (‘economic hedges’). We do not believe that it is the IASB’s intent to address economic hedges in the ED. However, we note that IFRS 7 currently calls for disclosures regarding the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. An entity may consider disclosing significant economic hedges based on this guidance.

Questions 2, 3 and 4:

Q2: Do you believe that the proposed guidance and illustrative examples included in the IASB’s Exposure Draft are sufficient to understand what is meant by risk management, how to apply that notion to determine accounting at a transaction level, and how to determine the appropriate level of documentation required? Why or why not?

Q3: Do you foresee an entity changing how it determines, documents, and oversees its risk management objectives as a result of this proposed guidance? If yes, what changes do you foresee? Do you foresee any significant difficulties that an entity would likely encounter in establishing the controls related to complying with the proposed guidance?

Q4: Do you foresee any significant auditing issues arising from the proposed articulation of risk management and its link to hedge accounting? For example, is the information required to be disclosed regarding an entity’s risk management strategies measurable and objective? Could the inclusion of an entity’s risk management objectives create an expectation gap that the auditor is implicitly opining on the adequacy of an entity’s risk management objectives?

We generally agree with the objective that hedge accounting should represent in the financial statements the effect of an entity’s risk management activities that use financial instruments to manage exposures arising from particular risks. Including a clear, principles-based objective in the standard would avoid situations in which hedge accounting is arbitrarily not allowed even though the hedge relationship is consistent with appropriate risk management activities. However, we believe that the IASB should clarify its objective so that entities can interpret risk management in the context of the proposals consistently and determine how to align hedging relationships at the transaction level with risk management which is often applied at a higher level. We believe this is necessary because the proposed objective of hedge accounting makes an entity’s risk management a determining factor in assessing whether hedge accounting can be applied.



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The current hedge accounting model is particularly rules-based. This creates at times a disconnect from an entity's risk management activities. Therefore, we note that in practice, aligning existing hedges with risk management may require significant effort and changes to risk management documentation, as some current hedges may have been designed or designated to primarily achieve an accounting objective. However, realignment will need to be done since the proposed objective of hedge accounting makes an entity's risk management a determining factor in assessing whether hedge accounting can be applied.

Adding to this challenge is the fact that risk management is not defined under IFRSs, ISAs, US GAAP or US auditing standards. IFRS 7 requires qualitative disclosures of an entity's policies and processes for accepting, measuring, monitoring and controlling risks and discusses certain components that may be part of these policies and processes. However, the policies and processes used by an entity to manage risk are typically developed and applied at a high level and not at an individual transaction level. Entities may have difficulties aligning hedging relationships at the transaction level with risk management. Therefore, we are concerned that entities may interpret risk management in the context of the proposals differently and apply hedge accounting in situations the IASB did not intend or vice versa. This issue also would create difficulties in auditing an entity's assertion that it has adequately aligned its hedging relationships with its risk management activities. Difficulties would also arise in designing controls related to complying with the proposals. We asked the IASB to clarify the objective of hedge accounting to address this issue.

In particular we asked the IASB to clarify whether it believes that risk management would need to include policies and processes at a lower level than entity-wide or other high level, such as an individual hedging strategy level, and if not, how linking such high-level policies and processes to individual hedging relationships could be achieved.

We also suggested that the IASB consult with the International Auditing and Assurance Standards Board (IAASB) about this key proposal so that the IAASB can consider whether any of the existing ISAs need to be amended and whether new International Auditing Practice Statements (IAPSSs) need to be issued. If the FASB were to align its hedge accounting model with entities' risk management, we would recommend the FASB to consult with the American Institute of Certified Public Accountants (AICPA) and the Public Company Accounting Oversight Board (PCAOB) to consider whether any of the existing US auditing standards need to be amended and whether new auditing standards need to be issued.

Hedging Instruments

Question 5: *Should cash instruments be eligible to be designated as hedging instruments? Why or why not? If yes, is there sufficient rigor to prevent an entity from circumventing the classification and measurement guidance in other relevant accounting guidance (for example, IFRS 9, Financial Instruments, and IAS 21, The Effects of Changes in Foreign Exchange Rates)?*



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Are there any operational concerns about designating cash instruments (such as items within a portfolio of receivables) as hedging instruments?

We agree with the proposals that allow non-derivative financial instruments measured at fair value through profit or loss to be designated as hedging instruments. There appears to be no conceptual reason to preclude such a financial instrument from being designated as a hedging instrument when this is consistent with an entity's risk management. In addition, we are not aware of specific operational concerns about designating these instruments as hedging instruments.

Hedged Items - Overall

Question 6: *Do you believe that the proposed guidance is sufficient to understand what constraints apply when determining whether an item in its entirety or a component thereof is eligible to be designated as a hedged item (for example, equity instruments measured at fair value through profit or loss, standalone derivatives, hybrid instruments, and components of instruments measured at fair value through profit or loss that are not permitted to be bifurcated)? If not, what additional guidance should be provided?*

We agree with the proposals that allow designation of an item in its entirety or a component as a hedged item as long as such hedge accounting is aligned with the entity's risk management activities. Please refer to our responses to questions 7 through 13 with respect to specific clarifications we believe are necessary.

Hedged Items – Risk Components

Question 7: *Do you believe that the proposed criteria are appropriate when designating a component of an item as a hedged item? If not, what criteria do you suggest? Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to determine when the criteria of separately identifiable and reliably measurable have been met? If not, please describe what additional guidance should be provided.*

We agree that the proposed criteria of separately identifiable and reliably measurable are appropriate hedge accounting eligibility requirements when designating a risk component of a financial or non-financial item as a hedged item in a hedging relationship. However, we believe that the IASB should clarify the principles of separately identifiable and reliably measurable.

Paragraph B15 of the ED notes that the reliably measurable condition is met when a forward market for the underlying exists and the separately identifiable condition is met when there is a relationship between the prices of the component being hedged and the non-financial item. The discussion describes such a relationship as a 'building block'. In addition, paragraph B14 states that the assessment of whether risk components are hedgeable is made in the context of the particular market structure to which the risk relates and in which the hedging activity takes place. We do not believe that the guidance in this area is robust enough to allow entities to understand



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and therefore comply with such principles. In addition, this lack of clarity would make auditing the assertions that these conditions have been met difficult.

For example, it is unclear whether the following are needed in order for a risk component to meet these conditions:

- A forward market for the hedged component for the hedging relationship period;
- A statistical correlation between the hedged component and the non-financial item and whether such correlation is based on the cost or fair value of the component and non-financial item; and
- Each component that makes up the non-financial item, and not just the hedged component, is separately identifiable and reliably measurable.

Although the principles of separately identifiable and reliably measurable are included in the current guidance for assessing risk components of financial items under IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), issues in practice have arisen. For example, even though the basis for conclusions of IAS 39 notes that non-contractually specified inflation is not separately identifiable and reliably measurable, the conceptual basis behind this determination has not been explained adequately. In addition, the IASB notes in the ED that they believe credit risk hedging to be operationally difficult, if not impossible, to achieve. The IASB should consider credit risk hedging, as well as inflation, when they clarify the principles of separately identifiable and reliably measurable.

Question 8: *Do you believe that ‘separately identifiable’ should be limited to risk components that are contractually specified? Why or why not?*

We do not believe that the separately identifiable criterion should be limited to risk components that are contractually specified. This limitation does not exist for risk components of financial items and we believe that consistent hedge accounting eligibility requirements should be applied for financial and non-financial items. In order to address the operational concerns raised in our response to question 7, we recommended that the IASB clarify the principles of separately identifiable and reliably measurable.

Hedged Items – Layer Component

Question 10: *Do you believe that the proposed guidance is sufficient to understand what constraints apply to determining a layer component from a defined, but open, population? (For example, do you believe that the sale of the last 10,000 widgets sold during a specified period could be designated a layer component in a cash flow hedge?) If not, what additional guidance should be provided?*

We agree with the proposals that allow the designation of a layer of a nominal amount as the hedged item. A layer component of a nominal amount, such as the bottom 10,000 widgets of inventory is not different from any other layer component of the nominal amount. Therefore, similar to the eligibility of a proportion or percentage of an item to be designated as a hedged



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item, a portion or layer should be an eligible hedged item as long as the layer can be identified with sufficient specificity to track for accounting purposes (i.e., separately identifiable). For example, we would not expect that a layer designated as the last 10,000 widgets sold in a period would meet the separately identifiable condition for hedge accounting as such an amount could not be sufficiently specified to track for hedge accounting purposes and other accounting processes, when applicable, such as impairment testing, income recognition and derecognition. In addition, we do not believe that the example in paragraph B21(b) of the ED, “a part of a physical volume, e.g., 50,000 cubic meters of natural gas stored in location XYZ” is sufficiently specified. Thus, we do not believe that this layer component would qualify as a hedged item. We asked the IASB to clarify this example.

Hedged Items – Aggregated Exposure and Groups of Items
Questions 11 and 13

Q11: Do you foresee any operational concerns applying other guidance in IFRS (for example, guidance on impairment, income recognition, or derecognition) to those aggregated positions being hedged? For example, do you foresee any operational concerns arising when an impairment of individual items within a group being hedged occurs? If yes, what concerns do you foresee and how would you alleviate them?

Q13: Do you believe that an entity should be permitted to apply hedge accounting to a group of cash instruments or portions thereof that offset and qualify as a group under the proposed guidance and satisfy the proposed hedge effectiveness criteria? Why or why not?

Although it is difficult to comment fully on the proposed requirements for group hedging until we have seen the IASB’s proposals on open portfolio hedging, we generally agree with the principle that a group of items is eligible to be a hedged item. However, we are concerned that the proposals do not appear to contain any eligibility criteria for hedges of groups of items, other than aligning the relationship with an entity’s risk management activities and limiting net position cash flow hedges.

We recommended that the IASB clarify if there are any qualifying criteria for aggregating a group of hedged items into gross or net positions. As the hedged items in a group, whether gross or net, ‘hedge’ one another, we believe that they should be subject to analogous requirements to those of a hedging instrument and a hedged item in a traditional hedging relationship (i.e., some type of similarity test). These criteria also would mitigate operational issues dealing with the subsequent accounting of the individual hedged items such as impairment, income recognition and derecognition since the hedge accounting effect on the group could be allocated to individual hedged items in a rational manner.

Our view is based on the fact, as the IASB states in paragraph BC 11 of the ED, that hedge accounting is an exception to the normal recognition and measurement requirements of IFRSs. Allowing hedged items to be grouped without some type of similarity test on the basis that it is consistent with the entity’s risk management could be interpreted as hedge accounting being the



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rule and the normal recognition and measurement requirements the exception. For example, taken to the extreme, an entity could hedge its entire fixed-rate financial instrument net position by hedging these net assets or liabilities, no matter how dissimilar these instruments may be, if that was in line with its risk management objective.

Question 12: *Do you believe that the proposed guidance on aggregated exposures will provide more transparent and consistent information about an entity's use of derivatives? Why or why not?*

We agree with the principle that an aggregated exposure (i.e., a combination of a non-derivative exposure and a derivative) should be an eligible hedged item. This is an example of aligning hedge accounting with an entity's risk management activities. In the past in many situations, workarounds to the prohibition of aggregated exposures have been achieved by combining multiple derivatives to be the hedging instrument in a hedge of one or more risks. We believe that either approach should be acceptable (i.e., aggregated hedged item or aggregated hedging instrument), depending on how the combinations of hedged items and hedging instruments are viewed from a risk management perspective.

However, it is unclear from the guidance provided how to account for the aggregated exposures, how to assess hedge effectiveness for hedging relationships (for each individual hedging relationship or the combined relationship) and how to apply the hedge accounting eligibility criteria when an aggregated exposure is designated in a hedging relationship. Without clarification, we believe the principle could be misapplied.

Hedge Effectiveness

Question 14: *Do you foresee any significant operational concerns, including auditing issues, in determining how to assess whether a hedge achieves other-than-accidental offset? If yes, what concerns do you foresee and how would you alleviate them?*

We agree that 'other than accidental' is an appropriate criterion for the hedge effectiveness requirements when combined with the clarified principles of minimizing expected hedge ineffectiveness and producing an unbiased result as discussed in our response to question 15. In our experience, it is unlikely that an entity would put in place hedges using offset that is 'accidental'. We expect risk management to be based on offsetting risks that can be demonstrated to be economically effective.

However, we do not believe that the examples provided in paragraph B31 of the ED are useful to explain this principle. Thus, we suggest that these examples be deleted and replaced with a general statement that an entity's risk management normally seeks to use hedging instruments that provide an appropriate degree of offset in cash flows or fair values based on demonstrated economic relationships. Another area for which there is lack of clarity is whether the changes in fair value of the hedged item can be determined using a hypothetical derivative for fair value hedges.



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Question 15: *Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to analyze hedge effectiveness (for example, how to measure the change in the value of the hedged item attributable to the related hedged risk for nonfinancial items)? If not, what additional guidance is needed?*

We support the elimination of the bright-line effectiveness requirements in IAS 39. We support the proposal that only a prospective effectiveness test should be required, and that in many simple cases only a qualitative assessment would be needed at each reporting date or when a hedge is rebalanced.

However, we believe that the IASB should clarify the principles of minimizing expected hedge ineffectiveness and producing an unbiased result. We believe that the objectives of the effectiveness requirements are not clear enough to ensure that entities will apply the principles consistently and as the IASB may intend. In addition, this lack of clarity would make auditing the assertion that the requirements have been met difficult. Producing an unbiased result implies no hedge ineffectiveness while minimizing expected ineffectiveness implies the possibility of some ineffectiveness. Also, the ED notes that an entity should have no expectation that changes in the fair value of the hedging instrument will systematically either exceed or be less than that of the hedged item, but that this does not mean that there should be an expectation of perfect effectiveness. Thus, somewhere between some level of random ineffectiveness and perfect effectiveness may be the appropriate effectiveness level. Different readers of the proposals might interpret the effectiveness conditions as being more or less restrictive than the current requirements. While these conditions would be based on an entity's risk management activities, it is unclear whether a hedging relationship would qualify if risk management called for a very low effectiveness threshold.

In addition, it is unclear how an entity should align the evaluation of whether an individual hedging relationship meets the conditions of minimizing expected hedge ineffectiveness and producing an unbiased result with its risk management which often is applied at a higher level. For example, risk management may not address the expected level of hedge effectiveness at the individual hedging relationship level. Instead, it may address an objective of risk mitigation at a division or some other high level of an entity's structure.

Changes to a Hedge Relationship

Question 16: *Do you foresee any significant operational concerns or constraints in determining whether (a) a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship or (b) an entity's risk management objective has changed? If yes, what concerns or constraints do you foresee and how would you alleviate them?*

We do not foresee any significant operational concerns or constraints in determining whether a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship.



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As previously discussed in our response to questions 2, 3 and 4, entities may have difficulties aligning hedging relationships at the transaction level with risk management which is often applied at a higher level. In turn, this may create difficulties in assessing whether an entity's risk management objective has changed in relation to an individual hedging relationship. Such a change would call for termination of the hedging relationship.

Question 17: *Do you foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting? If yes, what concerns or constraints do you foresee and how would you alleviate them?*

We agree with the proposed requirements to rebalance the hedging relationship in circumstances where an entity's hedging relationship fails to meet the objective of the hedge effectiveness assessment but the risk management objective for a hedging relationship remains the same. Under the current requirements, entities are required to de-designate their hedging relationships when they fall outside of the bright-line hedge effectiveness requirements. These entities often re-designate such hedging relationships given that there is no change to their risk management objectives. De-designations and re-designations of relationships have led to unnecessary complexity. We believe that in cases in which the entity's risk management objective has not changed, rebalancing the hedging relationship would be a simpler solution and would reflect more accurately the entity's risk management objectives.

However, we believe that the IASB should clarify the circumstances in which an entity would be required to rebalance the hedging relationship. For example, is rebalancing required only as a response to changes in the relationship between the hedged item and hedging instrument arising from their underlying or risk variables as noted in paragraph B48 of the ED or is it also required when the probability of occurrence of some of the volume of the hedged item changes as noted in paragraph B65(b)?

We also believe that the IASB should clarify the consequences of the following actions since they could be interpreted to cause voluntary discontinuations of hedging relationships:

- Failing to rebalance a hedging relationship that no longer meets the objective of the hedge effectiveness assessment;
- Failing to amend hedge documentation subsequent to a rebalancing; or
- Canceling hedge documentation.

In relation to the proactive rebalancing of a hedging relationship, the IASB should clarify how an entity could determine that the hedging relationship meets the objective of the hedge effectiveness assessment (a prospective test) and at the same time conclude that it would not be effective in the future. The two conclusions seem contradictory.

In addition, it is unclear whether an entity would be able to voluntarily discontinue hedge accounting if its risk management policies allowed for voluntary de-designations.



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Accounting for the Time Value of Options

Question 18: *Do you believe that capitalizing the time value of an option as a basis adjustment of nonfinancial items (in other words, marking the asset or liability away from market) will improve the information that is provided in an entity's statement of financial position? Why or why not?*

We agree with the proposed accounting to capitalize the time value of a purchased option as a basis adjustment of non-financial items when the hedged item is transaction related. Such treatment is consistent with the view that an option premium paid represents a premium for protection against risk and properly reflects the nature of such cost.

Fair Value Hedge Accounting and Presentation

Question 19: *Do you believe that the proposed presentation of the gains and losses in other comprehensive income will provide users of financial statements with more useful information? Why or why not?*

We do not believe that the changes to the requirements for fair value hedge accounting are improvements or that they reduce complexity; rather they may cause confusion. Thus, we support retaining the current fair value hedge accounting model as it relates to recognizing the changes in fair value of the hedged item and hedging instrument in profit or loss. We agree that ineffectiveness should be visible to readers of financial statements, and, therefore, suggest that the ineffectiveness amount be disclosed in the notes to the financial statements.

Question 20: *Do you believe that the proposed presentation of a separate line item in the statement of financial position would increase the transparency and the usefulness of the information about an entity's hedging activities? Why or why not?*

Although we support the separate line item approach in the proposals over the current mixed measurement model, we believe that the benefits of using a separate line item approach will be negated by the effects of entities having potentially numerous additional line items in the statement of financial position. Therefore, we believe that the IASB should consider the merits of:

- All the valuation adjustments being aggregated into a single line on the statement of financial position; or
- All the valuation adjustments for hedged assets being aggregated into a single line item and all the valuation adjustments for hedged liabilities being aggregated into a single line item.

We believe that either approach is preferable to the multiple separate line item approach in the proposals as both alternatives would avoid the mixed measurement attribute which was noted by constituents to be overly complex and confusing while avoiding the disclosure of numerous additional line items in the statement of financial position. Under either alternative approach, we recommend that the IASB require an analysis of the amounts in the notes to the financial statements.



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Question 21: *Do you believe that there is sufficient guidance to specifically link the hedging adjustments to the hedged assets and liabilities that compose a hedged net position with respect to presenting a separate line item in the statement of financial position?*

We believe there is sufficient guidance in the proposals to specifically link the hedging adjustments to the corresponding hedged assets and liabilities that compose a hedged net position with respect to presenting a separate line item in the statement of financial position. Please refer to our response to questions 10, 11 and 13 relating to sufficient specificity in identifying the hedged item and the need for a similarity test.

Disclosures

Question 22: *Do you foresee any significant auditing issues arising from the inclusion of risk management disclosures in the notes to the financial statements? If yes, what issues do you foresee and how would you alleviate them? Do you believe that it is appropriate to include risk management disclosures in the notes to the financial statements rather than in other information in documents containing financial statements? Why or why not?*

The risk management disclosures required by the ED only cover risk management strategies for each category of risk exposure being hedged and for which hedge accounting is applied. The required disclosures are not a complete discussion of an entity's risk management strategies. We agree with the disclosure objective and with most of the detailed disclosure proposals as we believe that the proposed disclosures would provide a clearer and more useful depiction of an entity's risk profile. However, we believe certain principles in the proposals should be clarified as discussed in our responses to the previous questions. For example, risk management is not defined under IFRSs, ISAs, US GAAP or US auditing standards, and we are concerned that entities may interpret risk management in the context of the proposals differently and apply hedge accounting in situations the IASB did not intend or vice versa. Therefore, we suggest that the IASB consult with the IAASB about this key proposal so that the IAASB can consider whether any of the existing ISAs need to be amended and whether new IAPSs need to be issued. If the FASB were to align its hedge accounting model with the IASB's hedge accounting proposals, we would recommend the FASB to consult with the AICPA and the PCAOB to consider whether any of the existing US auditing standards need to be amended and whether new auditing standards need to be issued.

As long as the IASB clarifies the specific concerns raised above, however, we do not foresee any specific difficulties in auditing the risk management disclosures in the notes of the financial statements.

In addition, we believe that the IASB should consider requiring disclosures, based on risk management, of how the effectiveness requirements are established, what requirements are in place and how this is tested for each type of, but not each individual, hedge relationship. We also believe that disclosures should include the nature of hedging instruments that are used to manage each type of risk.



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Other

Question 23: *Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to US GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to US GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standards?*

We continue to reiterate the importance of the IASB and the FASB working together to create a single set of high quality, converged global accounting standards related to hedge accounting.

We support the development of a standard based on the core principles in the proposals. The proposals adopt a more principles-based approach instead of the current rules-based standards that include detailed requirements. We agree with this directional change and believe that it would be an appropriate starting point for changes to US GAAP if certain principles in the proposals are clarified as noted in our responses to the previous questions and comment letter on the ED (Refer to Appendix B).



Appendix B

Comment letter on IASB's Exposure Draft, *Hedge Accounting*, submitted on March 9, 2011



Appendix B: KPMG
Comment Letter on I/