



**PLAINS**  
**ALL AMERICAN**

September 23, 2010

Technical Director  
File Reference No. 1810-100  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities***

Plains All American Pipeline, L.P. (“PAA”) is a master limited partnership engaged in the transportation, storage, terminalling and marketing of crude oil, refined products, liquefied petroleum gas and other natural gas-related petroleum products. We are also engaged in the development and operation of natural gas storage facilities.

PAA appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or “Board”) May 26<sup>th</sup>, 2010 Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. Our comments are limited to the accounting for derivative instruments and hedging activities portion of the Exposure Draft.

PAA is supportive of the Board’s efforts to provide financial statement users with more consistent and transparent reporting for hedging activities. However, we do not believe that the Exposure Draft fully accomplishes this objective. We have included one general comment below. In addition, we have responded to specific questions contained in the Exposure Draft that are applicable to PAA.

**Bifurcation of Risk for Commodity Hedges**

PAA agrees with the Board’s decision to continue to allow bifurcation of risks when an entity is hedging its own debt instruments (hedging the benchmark interest rate). We believe that a requirement to assess hedge effectiveness based only on the total change in fair value or total change in cash flows of a debt instrument, which would incorporate both interest rate and credit risk, is illogical when the risk management objective is specifically to hedge interest rate risk.

We note in paragraph BC233 of the Exposure Draft that the Board did not reconsider bifurcation of risk with respect to hedging nonfinancial instruments. Commodity contracts are commonly priced with a formula consisting of an index price (such as monthly average NYMEX crude oil) with additional fixed and variable pricing components for other items such as transportation and basis differentials. Under current guidance, an entity must assess and measure ineffectiveness based on the total cash flow variability of the hedged transaction when hedging commodity transactions as bifurcation of risk is not permitted when the hedged transaction involves a nonfinancial asset or liability. However, an entity’s risk management objective when hedging such transactions may be limited to hedging the change in fair value or cash flows associated with just the indexed portion of the contract.

We believe that this is conceptually no different from hedging the benchmark interest rate. We request that the Board reconsider bifurcation of risk when hedging nonfinancial assets and liabilities when the hedged risk is easily identified, measured and bifurcated.

## **PAA's Responses to Applicable Questions Contained in the Exposure Draft**

### **General Response to Questions 56, 58 and 62**

Questions 56, 58 and 62 relate to the following proposed changes:

- A change to the effectiveness threshold required for hedge accounting from “highly effective” to “reasonably effective”
- A change from a quantitative assessment to a qualitative assessment when assessing the effectiveness of a hedging relationship except in rare circumstances where a quantitative analysis is necessary
- A change to require a qualitative reassessment (or quantitative if necessary) of hedge effectiveness after the inception of the hedging relationship only if circumstances suggest that a hedging relationship may no longer be reasonably effective.

While these proposed changes would appear to provide relief associated with current practice issues, we believe that these proposed changes will create new complexities. We understand and agree with the Board's reluctance to provide bright lines with these proposed changes such that each can be assessed with the individual facts and circumstances specific to the hedging relationship. However, we believe that the Exposure Draft should be amended to include a framework to assist preparers and auditors with making assessments regarding the following:

- What factors should be considered that would indicate that a hedging instrument is or is not reasonably effective?
- What constitutes a proper qualitative analysis?
- What factors should be considered to determine if a quantitative assessment of effectiveness is warranted?
- What factors should be considered in making the determination that circumstances suggest that a hedging relationship is no longer effective?

The framework could consist of a non-exhaustive list of factors that *could* be considered when making assessments regarding the above questions.

As previously stated, we are not suggesting that bright lines should be established by the Board. However, based upon our experience with ASC 815 and in the absence of a framework, bright lines will likely be established through interpretive guidance as to the above questions. We expect that these interpretive bright lines will likely be inconsistent and therefore not result in meaningful simplification for preparers and detract from the consistency and transparency objectives of the Exposure Draft. Additionally, varying interpretations of these requirements in practice will likely result in the same issues associated with effectiveness testing observed under the current guidance such as inconsistent application

of hedge accounting between periods and reluctance to hedge and/or apply hedge accounting even when hedging relationships are effective.

**Question 56: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?**

See “General Response to Questions 56, 58 and 62” above.

We generally support the proposed modification to the effectiveness threshold from highly effective to reasonably effective. However, we believe that the application of this proposed change will have limited benefit to commodity hedgers. For example, PAA purchases and sells commodities at hundreds of different locations throughout the United States and Canada. Prices for each of these locations are subject to unique supply and demand forces that may or may not be mirrored in the hedging instrument’s price. We would anticipate that a qualitative approach used to track commodity price changes at numerous locations throughout the US and Canada against the hedging instrument’s price changes would be difficult to support qualitatively and particularly difficult to support without a framework for making qualitative assessments as discussed in our response to General Response to Questions 56, 58 and 62. Such difficulties would likely be resolved by continuing the quantitative analysis that we perform currently thus eliminating any benefit of simplification relative to the current requirements.

**Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?**

PAA agrees with the elimination of the requirement to quantitatively assess hedge effectiveness at inception and on an on-going basis. We also believe that effectiveness evaluations beyond the inception of the hedging relationship should be performed only when circumstances indicate that a hedging instrument is no longer reasonably effective.

**Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?**

See “General Response to Questions 56, 58 and 62” above.

We believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a modest reduction in the number of times hedging relationships would be discontinued.

**Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?**

We do not foresee significant operational concerns or constraints when calculating ineffectiveness for cash flow hedge relationships under the proposed methodology as ineffectiveness

measurement is required for cash flow hedges under the current guidance. While we understand the conceptual case for this proposed change, we are particularly concerned that under the proposed methodology under-hedged situations result in a deferred gain or loss in accumulated other comprehensive income (“AOCI”) that is greater than the fair value of the hedging instrument. We believe that the resulting earnings and AOCI effects do not result in a representative depiction of the economic substance of an entity’s hedging instruments and that constituents will find this very difficult to understand. Our recommendation is that the current guidance for calculating ineffectiveness be retained.

**Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?**

See “General Response to Questions 56, 58 and 62” above.

We believe that potential exists for operational constraints depending on the interpretation of this requirement from the standpoint of what circumstances would suggest that a hedging relationship is no longer reasonably effective. One way to assess this would be through a quantitative analysis such as regressions which are commonly performed under the current guidance. Our concern is that with the proposed modification from “highly effective” to “reasonably effective” and absent a framework, we will ultimately continue to perform quantitative analysis to validate to ourselves and our auditors that circumstances do not suggest that our hedge relationships are no longer reasonably effective. This does not pose an operational constraint, as we are currently required to do this and have reached a consensus as to how to accomplish. However, we would not realize any benefit from the proposed change under this scenario.

**Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?**

We do not foresee any significant constraints to this proposed change. However, we believe that the exposure draft should be amended to include guidance as to how this change would apply to portfolio hedging common within the energy industry. When hedged volumes are increased or decreased within a portfolio of hedging instruments associated with a revised forecast, the previous portfolio hedging relationship is typically dedesignated and subsequently redesignated to reflect the new portfolio hedging relationship (a rebalancing of the portfolio).

The execution of offsetting trades each time a portfolio was dedesignated and redesignated is not operationally practical. If hedge accounting is contingent upon the ability to designate and redesignate a portfolio hedging relationship as a result of a revised forecast, this proposed change would likely exacerbate “on-again, off again” hedge accounting for many companies within the energy industry that use portfolio hedging. We request that the Board clarify how this proposed change regarding dedesignations should be viewed with respect to portfolio hedging.

**Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?**

We do not foresee any significant constraints to this proposed change. For many commodity derivatives, such as NYMEX crude oil futures, once an offsetting derivative instrument has been executed, there is no subsequent change in fair value and the clearing broker will pair up and settle the offsetting trades. However, we do not foresee the benefit of this or how an additional documentation requirement relates to the objectives of the Exposure Draft.

We would like to thank the Board for providing us the opportunity to express our views. Please contact me at 713-646-4108 if you would like to discuss our comments in greater detail.

Sincerely,

Ryan J. Smith  
Director of Technical Accounting