

From: umesh_rathi@agilent.com
To: [Director - FASB](#)
Cc: umesh_rathi@agilent.com
Subject: Proposed Accounting Standards Update on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: File Reference No. 1810-100
Date: Thursday, September 30, 2010 2:51:12 PM

Hi Team,

I am currently working in MNC company in treasury accounting group. I would like to thank you for providing opportunity to comment on exposure draft on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. Below mention are my list of queries /comments. Would appreciate your response.

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1: Method allowed to assess hedge effectiveness

- a) Proposed guidance eliminates the shortcut method and critical terms match method and now same shall not be used to assume either that a hedging relationship is completely effective or that no ineffectiveness needs to be recognized in net income during the term of the hedge. Entities now require to perform a qualitative (rather than quantitative) test at inception to demonstrate that an economic relationship exists between the hedging instrument and the hedged item or forecasted transaction. However, in certain situations, a quantitative test may be necessary at inception.

Question : At one hand new draft exposure eliminate critical term match method or short cut method on other hand it allows entity to perform qualitative test. This is really confusing, can you please help me to understand how critical term match method or short cut method is different from qualitative assessment. Can you again provided specific example on how to perform this qualitative assessment? What are the key data elements needs to be compared or looked into while performing qualitative assessment? Can you provide few example?

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Concern: In the absence of specific example and clarity , interpretation of qualitative assessment may be abused badly to take hedge accounting treatment.

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2: Qualifying Criteria – Hedging Relationship

- a) Hedging relationship, at its inception and on an ongoing basis, is expected to be reasonably effective (rather than highly effective) in achieving offsetting changes in fair values or cash flows attributable to the hedged risk during the period of the hedging relationship.

Question : As we understand currently under subtopic **ASC 815-20** , FASB has declined to provide specific guidance though FASB staff has stated informally that in order for a hedge to be highly effective, range of 80 to 120 percent is being considered. which SEC staff has also supported . Can you please let us know under revised guidance , is there any plan to define any range to qualify for hedge accounting.

Concern: In the absence of any clear cut guidance on range, it does not provide any

bright lines and the interpretation of that phrase will be a matter of judgment.

3 :Reasonably Effective Criterion

- a) Board decided not to define *reasonably effective* for purposes of determining when hedge accounting could be applied and when it could not be applied. Judgment based on holistic consideration of all the facts and circumstances that led an entity to enter into a hedging relationship should be applied when determining whether a hedging relationship is reasonably effective.

Question : In case , FASB is not defining any range, can above criteria can be explained in detail with the help of few example?

Concern: In the absence of specific example, again interpretation of above para will be a matter of judgment. Unless clear and specific guidance is not provided, standard may not get applied in true spirit.

4: Timing of hedge effectiveness' testing

- a) After inception of the hedging relationship, an entity would need to qualitatively (or quantitatively, if necessary) reassess effectiveness only if changes in circumstances suggest that the hedging relationship may no longer be reasonably effective.

Question : Can you explain with help of few examples circumstance where an entity may feel that hedging relationship may no longer be reasonably effective?

- b) Need for reassessing effectiveness at least quarterly would be eliminated unless changes in circumstances suggest that a hedging relationship may no longer be reasonably effective.

Question : Is there any recommended period after which entity should perform testing?

5: Measuring and Reporting Ineffectiveness in Cash Flow Hedging Relationships

- a) An entity shall adjust accumulated other comprehensive income associated with the hedged transaction to a balance that reflects the amount necessary to offset the present value of the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the amount previously reclassified from accumulated other comprehensive income into net income, if any. Thus, ineffectiveness is recognized for both over hedges and under hedges.

Question : At one hand new draft exposure allows entity to perform qualitative test and that too only when may feel that hedging relationship may no longer be reasonably effective, on other hand draft exposure warrants to record ineffectiveness piece for both

under hedge and over hedge situation and account for appropriately in accounts during the reporting. Not sure how both will work together, it seems very confusing and contradicting. Can you please clarify this more in detail?

Question : Can you explain in detail rationale behind recording impact to P&L in case of under hedging position unlike current standard ineffective piece use to get recorded only in case of over hedging position?

Question : What are the recommended method should be used to calculate ineffective amount for both over and under hedge position?

Would appreciate if you can provide clarification on above questions. I can also be contacted for quick call at below mention numbers.

Office: 91 124 4863284 (Timing: 8.30 am to 4.30 pm IST)

Mobile: 91 9811336035 (Timing: 8.30 am to 10.30 pm IST)

Regards,
Umesh