12001 Tech Center Drive Livonia. MI 48150

September 30, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



Re: File Reference Number 1810-100, Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

TRW Automotive Holdings Corp. ("TRW") appreciates the opportunity to comment on the Financial Accounting Standards Board ("FASB") Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities ("the Proposed ASU"). TRW is among the world's largest suppliers of automotive systems, modules, and components to global automotive manufacturers and related aftermarkets. As a result of our global operations, we routinely utilize financial instruments and derivative instruments to provide liquidity and manage risks associated with cash flows, foreign currencies, interest rates, and commodity prices, respectively.

TRW supports the stated objectives of the Proposed ASU, and believes that simplification of the accounting for, and resolving major practice issues associated with, financial instruments and derivative instruments will benefit users of financial statements and will improve the overall quality of financial reporting. TRW also appreciates a number of the changes that have been made to the Proposed ASU from the 2008 proposed standard, Accounting for Hedging Activities, an Amendment of FASB Statement No. 133 (the "2008 Exposure Draft"), and appreciates the FASB's consideration of ours, and other commenters', comment letters submitted on the 2008 Exposure Draft.

However, in considering the Proposed ASU, we believe that several areas need to be revised, particularly in the fair value, with changes in fair value through other comprehensive income ("FV-OCI"), portion of the financial instruments model, and with regards to dedesignation of derivative instruments. Further, we ask that the FASB provide additional guidance with regards to transition to the Proposed ASU, particularly for those financial instruments that are in existence at the effective date. Finally, we ask that the FASB continue its work with the International Accounting Standards Board ("IASB") to fully converge the accounting for financial instruments.

Our concerns fall into four categories.

FV-OCI and Financial Liabilities

TRW generally supports the financial instruments model put forth by the Proposed ASU, and believes that it will help to reduce complexity with, and result in consistent treatment of, financial

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assets. However, when attempting to apply the financial instruments model to financial liabilities, we are concerned that the intention of the entity's business strategy criterion, in the FV-OCI portion of the financial instruments model, is not clear. Further, we are concerned that the criteria relating to the treatment of embedded derivatives in the FV-OCI portion of the model will not result in the consistent accounting treatment for financial liabilities.

Paragraph 21(b) of the Proposed ASU states that, in order for a financial instrument to qualify for FV-OCI treatment, "the entity's business strategy for the instrument is to collect or pay the related contractual cash flows, rather than to sell the financial asset or settle the financial liability with a third party." However, the Implementation Guidance to the Proposed ASU only discusses the implementation of the business strategy criterion as it would relate to financial assets. The Implementation Guidance of the Proposed ASU raises questions about how the business strategy criterion would be applied to financial liabilities, especially for settlement with a third party. In most cases, TRW believes that a reporting entity would choose to settle a financial liability with the counterparty, as opposed to transferring it to a third party. However, prepayment of a financial liability to the counterparty would still meet the business strategy criterion, as it was not settled with a third party, but prepayment of the same financial liability to a third party would fail the business strategy criterion. TRW questions how the same transaction (prepayment of a financial liability) can result in different accounting treatment in the financial instruments model, depending on whether the prepayment is made to the counterparty or to a third party. It would result in an increase in the cost to settle these liabilities, by limiting settlement of the financial liability to the counterparty, in order to meet the business strategy criterion.

With regards to embedded derivatives, TRW understands that the FASB believes treating the hybrid financial instrument as a whole at FV-NI, instead of bifurcating the embedded derivative, recording the embedded derivative at FV-NI, and treating the host contract as either FV-NI, FV-OCI, or amortized cost, will simplify the accounting for financial instruments. TRW agrees that, if the embedded derivative has an identifiable fair value that is more than de minimis, then the rationale given by the FASB is logical. However, in many circumstances, an embedded derivative would only have an identifiable fair value if a certain sequence of events occurs, the occurrence of which may be less than remote. In these instances, in spite of the embedded derivative having little or no fair value, under the Proposed ASU, a reporting entity would still be required to treat the whole instrument at FV-NI. Our experience is that the inclusion of an embedded derivative for a default provision, or a contingent event, which has little or no fair value, are common with financial liabilities.

We strongly suggest that the FASB consider a scope exception for embedded derivatives for financial liabilities where the fair value of the embedded derivative is zero or de minimis. In addition, we strongly suggest that the FASB add Implementation Guidance for financial liabilities that demonstrate the business strategy criterion, and add further guidance on how prepayment of a financial liability to the counterparty would be different than prepayment to a third party. TRW believes that these changes would enhance comparability and transparency by allowing similar financial liabilities, in all material aspects, to be accounted for in the same manner. While we acknowledge that such a provision would require the use of judgment by the reporting entity, we believe that preparers of financial statements would have the knowledge necessary to be able to effectively implement this proposed scope exception.

In addition, we question whether treating financial liabilities in the same manner as financial assets would provide decision-useful information to users of financial statements. In many cases, TRW believes that users of financial statements would be more interested in the face value (e.g.,

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the settlement amount) of a non-derivative financial liability, rather than the fair value of the financial liability, which may incorporate inputs that may be of lesser importance to the users of the financial statements. Thus, we ask the FASB to reconsider the guidance in the Proposed ASU relating to financial liabilities, with an eye towards providing more decision-useful information to the users of financial statements, rather than attempting to achieve symmetry in the Proposed ASU between financial assets and financial liabilities.

Hedging Relationships

The Proposed ASU makes several useful changes to the identification of hedging relationships, which will serve to simplify hedge accounting. In particular, we applaud the FASB for reducing the effectiveness criterion from highly effective to reasonably effective, for permitting a qualitative assessment that hedges will be reasonably effective, and for removing the required reassessment in each reporting period, unless facts and circumstances have changed. In addition, we note that the Proposed ASU does not carry forward some of the language that we objected to in our comment letter on the 2008 Exposure Draft, particularly relating to intercompany derivatives.

However, the Proposed ASU does carry forward language relating to the prohibition of the voluntary dedesignation of hedging relationships from the 2008 Exposure Draft. As we noted in our comment letter on the 2008 Exposure Draft, we believe that the inability to voluntarily dedesignate a hedging relationship will cause reporting entities to incur significant additional expense to adapt existing hedging strategies, and enter into additional derivative instruments, to comply with the new accounting standards.

In our comment letter on the 2008 Exposure Draft, we provided an example, currently permitted under ASC 815, where a reporting entity has a forecasted transaction in a foreign currency. Under current US GAAP, reporting entities would be able to use one derivative instrument to hedge both the forecasted transaction (e.g., a cash flow hedge for the forecasted transaction) and then use the same derivative instrument to hedge the resulting fair value changes associated with the receivable or payable acquired. Under the Proposed ASU, a reporting entity would only achieve the same accounting treatment by entering into two derivative instruments: a cash flow hedge for the forecasted transaction and a fair value hedge for the receivable or payable. Thus, in order to achieve the same economic result, a reporting entity would need to enter into two derivative instruments under the Proposed ASU, whereas under current US GAAP one instrument would suffice. Thus, we disagree with the FASB's conclusion that "many hedging strategies would not be affected by the proposal to not permit the dedesignation of a hedging relationship after it has been established," as transaction costs would increase for achieving the same hedging benefit.

We understand that, based on analysis that has been done on the Proposed ASU, the FASB's primary concern about voluntary dedesignation is that it provides a potential tool for earnings management. TRW does not understand how the FASB reaches this conclusion, given that (1) dedesignations are, by nature, a prospective event, and do not provide management with the ability to change the treatment of fair value changes prior to the dedesignation, and (2) any immediate benefit gained from dedesignating a hedge now would be offset by a future reduction or increase in net income, as the effective portion of the hedge would be amortized into net income over the remaining life of the instrument.

¹ Proposed ASU, paragraph BC223.

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We believe, however, that most users of derivative instruments enter into hedging strategies not to generate income, but rather to protect against unexpected fluctuations in interest rates, commodity prices, or foreign currency exchange rates. Thus, any change that would increase the number of derivative instruments that a reporting entity would be required to enter into, in order to maintain compliance with ASC 815, would result in additional expense being incurred by pursuing these hedging strategies. Thus, we believe that the end result, if the Proposed ASU is adopted as written, is that more reporting entities will choose to not pursue hedge accounting, in order to maintain operational flexibility in the use of derivative instruments.

Based on the expected cost of implementing this provision, we strongly suggest that the FASB remove this section from the Proposed ASU.

Transition to the Proposed ASU

We note that, in paragraph 137, upon adoption of the Proposed ASU, reporting entities would be required to record a cumulative-effect adjustment in the statement of financial position. However, there is little additional guidance provided to reporting entities on how to transition from current US GAAP to the Proposed ASU, particularly for financial instruments that may be in existence as of the effective date.

In particular, the transition from current US GAAP to the Proposed ASU raises a number of questions about how to implement the Proposed ASU. The majority of questions about implementation come from whether, at the effective date, a reporting entity should consider the facts and circumstances that existed at the original date of recognition of the financial asset or liability, or at the effective date. For example, in considering financial instruments held at the effective date for placement in the financial instruments model, should reporting entities consider their intentions at the date of recognition of the financial asset or liability, or should the evaluation be done at the effective date? Should reporting entities consider their business strategy on a go-forward basis from the effective date, or should past historical practices be considered? Should measurement attribute mismatches be considered at inception, on the effective date, or both?

We strongly urge the FASB to add transition guidance to assist preparers of financial statements in answering these and other questions about transition to the Proposed ASU. Providing this guidance will greatly enhance the comparability and transparency of the transition process, and will assist reporting entities with similar financial instruments to reach the same accounting conclusions. In particular, TRW recommends that the FASB provide transition guidance similar to the transition guidance provided in the leases exposure draft, which provides useful guidance to preparers of financial statements about how to apply the provisions of that exposure draft.

If the FASB decides that all financial instruments should be assessed as of the date of acquisition of the financial instrument, TRW would recommend that the FASB consider either a suitably long transition period, to permit preparers of financial statements to renegotiate the terms of the financial instruments to come into compliance with the Proposed ASU, or to permit grandfathering of instruments entered into prior to the issuance of the final Accounting Standards Update. We believe that such an accommodation to preparers of financial statements would allow them to minimize the costs and volatility associated with the transition to the Proposed ASU.

² Proposed Accounting Standards Update, *Leases*, paragraphs 88-95.

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Convergence with IFRS

When the Memorandum of Understanding was issued by the FASB and IASB, we were pleased to note that the accounting for financial instruments was one of the areas that had been selected for convergence. However, due to various reasons, we observe that the process utilized by the FASB and IASB has differed. The FASB, in the Proposed ASU, has taken an "all-in-one" approach and addressed the accounting for classification and measurement of a financial instrument, impairment of financial instruments, and hedge accounting in the Proposed ASU. Conversely, the IASB has split the project into three separate standards, and has issued a final standard for classification and measurement of financial assets, exposure drafts for financial liabilities and credit impairment³, and has not issued an exposure draft for hedging.

Because of the different paths that have been taken by the FASB and IASB, TRW observes that the Proposed ASU and the standards issued or proposed by the IASB are not fully converged, and contain several significant differences with regards to the classification and measurement of financial assets, the classification and measurement of financial liabilities, and the accounting for credit impairment. In addition, while an exposure draft has not been issued by the IASB with regards to hedging, we are concerned that the approach the IASB appears to be taking, based on the status of the hedging project on the IASB's web site, would be at odds with the Proposed ASU. TRW is concerned that, based on the different approaches taken by the FASB and IASB, reporting entities would be subject to excessive and unnecessary costs by adopting the Proposed ASU, which we view as not being converged with IFRS, and then incurring additional costs to adopt IFRS concurrent with the Securities and Exchange Commission ("SEC") timeline, expected to be issued in 2011.

We would strongly encourage the FASB and the IASB to consider the guidance in the Proposed ASU and IFRS 9 and the IASB's issued exposure drafts jointly, to ultimately reach one accounting model for financial instruments that would be applicable under both US GAAP and IFRS. We believe that such a joint process would not only allow both the FASB and IASB to adhere to the spirit of convergence, but would result in one unified high-quality standard for financial instruments. In addition, such a process would significantly reduce redundant costs that would be incurred by implementing the Proposed ASU, then implementing IFRS.

We thank the FASB for its consideration of our comments and recommendations, and would be pleased to discuss these issues in more detail with the FASB, or its staff, at your convenience.

Sincerely,

Tammy Mitchell, CPA
Vice President and Controller
TRW Automotive Holdings Corp.

Tammy S. Mitchell

Peter Rapin

Vice President, Treasury

TRW Automotive Holdings Corp.

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³ IFRS 9, Financial Instruments; IASB Exposure Draft ED 2010/4, Fair Value Option for Financial Liabilities; and IASB Exposure Draft ED 2009/12, Financial Instruments: Amortized Cost and Impairment; respectively.