



ILLINOIS CPA SOCIETY.

April 25, 2011

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-175

Dear Ms. Cospers:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the FASB's Invitation to Comment, *Selected Issues about Hedge Accounting*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

We welcome the Board's efforts to improve and simplify hedge accounting and to provide users with clearer more complete information. We support the Board's decision to solicit input on the IASB Exposure Draft, *Hedge Accounting* (ED) and its plans to participate in the IASB's discussion of comments. We strongly agree with the IASB's decision to take a comprehensive relook at accounting for hedges. We believe the Boards should take as much time as necessary to deliberate together to reach a complete converged high quality accounting standard which also addresses macro hedging and hedging open portfolios.

We support the principles-based approach and the overall objective to more closely align hedge accounting with an entity's risk management activities. In particular we agree with the proposals to permit or require:

- Risk components of non-financial items to be designated as hedged items whether contractual or not. We believe this approach more closely aligns with the way many entities hedge their risks. However, we believe more guidance is needed to identify the risks that satisfy the criteria.
- Combinations of derivatives and nonderivatives to be eligible hedged items. Once again this is the way many entities hedge their risks.

- Qualitative effective testing and the elimination of retrospective effectiveness testing. This approach eliminates much of the complexity of previous guidance. However, we believe more guidance is necessary to apply the concepts of unbiased results, hedge ratios and other-than-accidental offset. Without further guidance, the complex quantitative analyses currently required may not be alleviated, but merely replaced with new complex requirements. An alternative may be to retain the simpler “reasonably effective” concept proposed in the FASB Exposure Draft.
- The eligibility of groups of items and net positions as hedged items.
- Rebalancing. However, we do not believe rebalancing should be mandatory, as it will lead to undue complexity.
- Recording a basis adjustment for the result of a cash flow hedge of a non-financial asset or liability.

Further, we do not agree with all aspects of the IASB’s ED. For example, we disagree with:

- The limitation of hedge accounting to exposures that affect profit or loss. We believe entities may undertake risk strategies that affect other comprehensive income.
- The restrictions on the designation of an inflation component as a hedged risk; this seems to be rules based rather than principles based. If the effect of inflation is identifiable and reliably measurable, it should be permitted to be designated as the hedged item.
- The prohibition on voluntarily dedesignation of hedging relationships.
- The recognition of gain or loss from fair value hedging relationships in Other Comprehensive Income (OCI). We believe the current requirements under US GAAP are sufficient and less complex. Further, we encourage the Boards to develop a conceptual framework including the basis for recycling before requiring additional items to be included in OCI.
- The requirement to present separately, in the statement of financial position, the gain or loss attributable to the hedged risk on the hedged item. The gain or loss attributable to the hedged risk does not meet the definition of an asset or liability in the conceptual framework and separate presentation would unduly clutter the statement of financial position. The information can just as well be disclosed in the notes to the financial statements.
- The requirement for a forecasted transaction in cash flow hedge to be “highly probable” of occurring. While one of the FASB’s objectives, thus far, has been “to simplify and resolve practice issues” the introduction of this new term may add confusion. Moreover, the higher threshold would add yet another barrier to the application of hedge accounting, which seems counter to the other proposals, most of which tend to make hedge accounting more accessible.
- The requirement, for a cash flow hedge, to reclassify the gains and losses to the income statement when the transaction is no longer expected to occur. This is a lower threshold than the existing US GAAP requirement to reclassify when the forecasted transaction is probable of not occurring. This lower threshold could make it easier for preparers to prematurely pull accumulated gains into the income statement.

Last, although we agree with the objectives of hedge accounting disclosures, we do not entirely agree with the extent of the proposed disclosures required by the ED. We believe the disclosures

should be limited to (1) what is being hedged; (2) why it is being hedged; (3) how effective the hedge has been; and (4) the effect on the financial statements. We do not believe it is appropriate to include forward looking information in financial statements. Such information could be competitively sensitive and difficult to audit. Finally, we do not agree that the disclosure should be limited to entities that apply hedge accounting. We believe it is appropriate to require entities undertaking similar risk management activities with hedging instruments to provide similar disclosures regardless of the accounting treatment chosen. Although the proposal may make hedge accounting more attractive for more entities, many entities may choose not to designate hedging relationships as a result of the extensive disclosure requirements.

We appreciate the opportunity to offer our comments.

Sincerely,

Jeffery P. Watson, CPA
Chair, Accounting Principles Committee

Scott G. Lehman, CPA
Vice-Chair, Accounting Principles Committee

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011-2012

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired, Clifton Gunderson LLP
Daniel J. Hoffenkamp, CPA	Ernst & Young LLP
Scott G. Lehman, CPA	Crowe Horwath LLP
Elizabeth A. Prossnitz, CPA	BDO USA LLP
Robert B. Sledge, CPA	KPMG LLP
Reva B. Steinberg, CPA	Retired, BDO USA LLP
Jeffery P. Watson, CPA	Blackman Kallick LLP

Medium: (more than 40 professionals)

Brian T. Kot, CPA	Cray Kaiser Ltd CPAs
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

Small: (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Kathleen A. Musial, CPA	BIK & Co, LLP
Michael D. Pakter, CPA	Gould & Pakter Associates LLC

Industry:

Rose Cammarata, CPA	CME Group Inc.
Farah Hollenbeck, CPA	Hospira, Inc.
James B. Lindsey, CPA	TTX Company
Marianne T. Lorenz, CPA	Nicor Inc.
Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular Telephone & Data Systems
Ralph Nach, CPA	SkillsSmart LLC
Anthony Peters, CPA	McDonald's Corporation
Amanda M. Rzepka, CPA	JSSI

Educators:

James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
Leonard C. Soffer, CPA	University of Chicago

Staff Representative:

Gayle S. Floresca, CPA	Illinois CPA Society
------------------------	----------------------