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The Risk Management is studied for long time for some regulators, your importance is specific for determined activities, so, I observed that some operations are complex and your control is very difficult. I described some important points of the regulators:

- 1. "The governing body (i.e., a board of directors or its equivalent) of a firm has the ultimate responsibility and accountability for the level of risk undertaken and should function in an oversight capacity. The governing body should approve overall business strategies and risk management and control policies of a firm, and perform independent evaluations (through the internal audit function) to ensure compliance and continuing suitability of established strategies and policies. Firms that have adopted systems of matrix management should have clearly defined lines of reporting at all levels."
- 2. "In this context, risk management has become an essential part of firms' and regulators' activities. A risk management system is a valuable instrument for assessing the exposure to risk that participants in the financial sector in general are subject to. Using such systems, managers can measure risk across markets in terms of their potential impact on profit and loss, quantify capital allocation to markets and dealers, establish meaningful risk limits and supervise performance."
- 3. "Prior to mid 2007, the primary hedging was in the secondary market; and some larger firms hedged with single names. One firm said flatly that *selling* was the best hedge, although derivative products did exist with which firms could hedge in

¹ http://www.iosco.org/library/pubdocs/pdf/IOSCOPD78.pdf

²http://www.iosco.org/library/pubdocs/pdf/IOSCOPD73.pdf

indices and single name forms. There was less hedging available with regard to ALT-A mortgages, but more in the subprime area. In the sub-prime area, one firm used single names of *like* bonds (i.e., bonds with similar characteristics). Also on sub-prime, they used the ABX index15 as a hedge. However, on the consumer side, there were no synthetic options available. Another firm sought to avoid lower tranches; regarding super senior tranches, they used swaps and customized hedge instruments to manage risk. One firm surveyed confessed that, apart from hedging interest rate risk, it had no portfolio risk management related to credit spread risk, basis risk, etc., of SFPs until the emergence of the subprime crisis." ³

- 4. "Auditing standards play a critical role in the protection of investors within each country's domestic securities market and are an important part of a country's securities regulatory system. Securities regulatory authorities have responsibility for the development and implementation of that securities regulatory system. Securities regulatory authorities therefore have an important responsibility to ensure that auditing standards are responsive to the need for investor protection. 3. For several years, the Technical Committee, through its Working Party No. 1 and Sub-Committee on Accounting and Auditing, has worked closely with the International Auditing Practices Committee (the "IAPC") of the International Federation of Accountants ("IFAC") in developing IAPC's international standards on auditing. The Technical Committee has provided commentary, critiques and proposed changes to such auditing standards to ensure that such standards adequately address securities regulators' concerns with investor protection."⁴
- 5. The Glossary of Statement 53, paragraph 82, is amended as follows to include the terms assignment and in-substance assignment. ⁵
- 6. "Many regulators and oversight bodies recommended that some of the application material be elevated to requirements. In particular, many thought that doing so would more explicitly limit, if not prohibit, the use of work of the internal audit function in relation to significant risks. Suggestions were varied:
 - (a) Including the assessed risk of material misstatement as a factor to be considered when making judgments regarding where it would be appropriate to use the work of the internal audit function.

³http://www.iosco.org/library/pubdocs/pdf/IOSCOPD331.pdf

⁴http://www.iosco.org/library/resolutions/pdf/IOSCORES6.pdf

⁵http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C %2FGASBDocumentPage&cid=1176158244674

- (b) Elevating to requirements the fact that the higher the assessed risk, the less reliance that can be placed on work of the internal audit function.
- (c) Introducing the safeguard in the requirements that, where the risk of material misstatement is high (particularly for significant risks), tests must be performed directly by the external auditor, as consideration of work of the internal audit function alone cannot reduce audit risk to an acceptably low level.
- (d) Prohibiting using the work of the internal audit function in relation to significant risks." ⁶

I observed that the problem and difficulty of this process is how will be make controls of the operations and audit services. Actually is need to change some regulations and laws about this process in relation a International Standards, but I think and agree with this process, so I considering complex your used in practice.

I think that this proposal is very complex, but I agree with this study in this moment is very important, but I think that risk management activities isn't responsability of the IASB and FASB. This method is very important, but if have some problems for identify every risks management activities the independence of the IASB can be difficult, because don't have dimension of the problem and every sectors that used IFRS. Initially, I think that risk assessment activities will be better as Practice Statement or similar process used for COSO. The FASB and IASB will think that the process of Audit in this case independent if the IFRS has applied and determine of the process of transaction.

In my letter CL 139 I described some view points, but I sincerily I have doubt in internal controls, this process have a described complex operation and the control, I have difficulty for understand. I think I don't know that portfolios is more easy than elaborated risk manangement activities, I don't know.

I described my letter CL 139 with some considerations of the discussion of hedging:

1. AG 107 IAS 39 this Standard does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk if the entity's risk management strategy is to adjust the amount of the hedging instrument periodically to reflect changes in the hedged position, the entity needs to demonstrate that the hedge is expected to be highly effective only for the period until the amount of the hedging instrument is next

adjusted. In some cases, an entity adopts different methods for different types of hedges. An entity's documentation of its hedging strategy includes its procedures for assessing effectiveness. Those procedures state whether the assessment includes all of the gain or loss on a hedging instrument or whether the instrument's time value is excluded. Management strategy".

- 2. If the principal terms of the hedging instrument and of the hedged asset, liability, firm commitment or highly probable forecast transaction are the same, the changes in fair value and cash flows attributable to the risk being hedged may be likely to offset each other fully, both when the hedge is entered into and afterwards. IAS 39 AG110
- 3. To qualify for hedge accounting, the hedge must relate to a specific identified and designated risk, and not merely to the entity's general business risks, and must ultimately affect the entity's profit or loss. A hedge of the risk of obsolescence of a physical asset or the risk of expropriation of property by a government is not eligible for hedge accounting; effectiveness cannot be measured because those risks are not measurable reliably. IAS 39
- 4. This exposure draft proposes that the objective of hedge accounting is to 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 that could affect profit or loss. This aims to convey the context of hedging instruments in order to allow insight into their purpose and effect. IN 12
- 5. In the Board's view, consistent application of hedge accounting requires an objective that describes *when* and *how* an entity should:
- (a) override the general recognition and measurement requirements in IFRSs (ie when and how an entity should apply hedge accounting); and (b) recognise effectiveness and/or ineffectiveness of a hedging relationship (ie when and how gains and losses should be recognised).BC13

Epstein et al (2009, pg 191) The proposal IAS 39 of the Financial Instruments defines of the types of the hedging as: fair value hedges, cash flows hedges, and hedge of a net investments, in this specific case a hedge is using a derivative or other financial instrument of foreign currency exposed in the assets of a foreign operation. If all financial instruments were market (fair), values, there would be no need for special accounting except, perhaps, for hedges of unrecognized firm commitments and forecasted transactions.

Considering that risk management is the principal structured for hedge accounting, number 88, b of the IAS 39 said that: "The hedge is expected to be highly effective (see Appendix A paragraphs AG105–AG113) in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship".

For this, I observed that risk management's depends of the analysis of the risk strategy, and this method is very complexity and I don't know if is responsability of the IASB make measurement of identify activities risk management, I have doubt, because if IASB makes definition something that depends of approved of the others regulators, can be occurred some problems that can be impact of this standard.

I agree with the objective hedge accounting, the problem isn't only to represent in the financial statements the effect, in this aspect is very complexity for IASB demonstrate of the activities of risk management in the financial statements, but, if the IASB changed for measurement or similar is definition of risk management is different, the most important is the method for calculated as cost management and the risk management integrated in the structured of Statement.

I recommend to consulting some institutions or organizations specified about Cost Management and Strategy for companies, for example Blocher et al (2008) "strategic cost management is the development of cost management information to facilitate the principal management function, strategic management", if not the IASB can have problems in the jurisdictions and local rules that don't be your responsability.

Risk Management elaborated for IASB is very different than others, Financial Instruments is very complexity study, for this is very important a regulator specific of this subject integrated of discussion. I think that cash flows or fair value are measurable as cost management, for example Blocher et al comments importants aspects as follows:

- (2008, p.832) comments "Discounted Cash Flows and non-Dicounted Cash Flows representing capital budgeting that can be represent or not present value of future cash flows. as example payback, rate of return."
- (2008, p.833) "The discount rate can be approximated as the firm's weighted-average cost of capital WACC, the use of a firm's WACC as the discount rate for capital budgeting purposes is, however appropriate only for average-risk projects. In the situation where a project under consideration higher or lower risk than average, an adjustment to the firm's WACC is needed (upwards for higher risk projects, downwards for lower risk projects)."

 (2008, p.834) "the Capital asset pricing model – CAPM depicts the risk return relationship for equity securities and can be used to estimate the required rate of return on equity for a given company; equal to the risk-free rate of return plus a risk premium measured as the product of beta coefficient and the market risk premium."

A aspect important is defined which beta coefficient is a measure of the sensitivity, that can be help this is not hedge portfolios and calculated cost of debt, as the percentage of return. This proposed of Hedge is integrated the Balanced Scorecard with Value Chain that results in the effectiveness implemented in corporate strategy, if the objective of study of hedge is to be strategic management is very important to observated others considerations about cost analysis, I´don't know, I think this.

I think that this proposal will be difficult for establishing the controls related to complying with the proposed for identify in the companies. I think that in this case the standard can be imply the companies make interpretation different than audit companies, this is a risk, the objective cannot be attended.

So, in this process, I think that is very important every regulators discussion about this subject, this is very important decision for the process for International Standards, know how operations of the hedge in some activities and described some difficulties and problems can be occurred in this operations.

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Thank you for opportunity for comments this proposals, if you have questions don't hesitate contact to me, rio1042370@terra.com.br.

Yours Sincerily,
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