August 9, 2011

Ms. Leslie Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Mr. Hans Hoogervorst, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Re: Hedge Accounting

Dear Ms. Seidman and Mr. Hoogervorst:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to express its concern about the process for the hedge accounting component of the joint FASB/IASB memorandum of understanding (MOU) project on financial instruments.

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world’s largest accounting firms, valuation experts, accounting consultants, academics and analysts.¹ The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

¹ Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.
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We responded to the IASB December 2010 exposure draft on hedge accounting (ED) and the related February 2011 FASB discussion paper (DP). We were generally supportive of the direction of the ED and believed it was a superior starting point for the FASB's work in this area. We understand that the joint MOU project on financial instruments generally has been challenging for a variety of reasons, but it was our understanding that the FASB would participate in the IASB's discussion of the comments that the IASB received on its ED (see paragraph 4 of the DP). We have simply not seen this happening and we are not sure why.

The IASB's work plan targets a ballot draft on hedge accounting in the fourth quarter of 2011. We are concerned that this proposed timing and the apparent lack of involvement on the part of the FASB will result in "the train leaving the station" before the Boards are more coordinated. We understand the conflicting pressures on the Boards. On the one hand, the IASB is being asked to complete all aspects of the financial instruments project prior to them becoming effective. Yet, on the other hand, we understand that the FASB is trying to complete its model for the classification and measurement phase of the project before tackling details on hedge accounting, although it is not clear to us why the Board cannot and should not look at the issues at the same time.

Notwithstanding, we agree with the sentiment about coordination expressed in SEC Chief Accountant Jim Kroeker's June 5, 2011 speech:

"... I believe it is critical that, as it relates to the MOU projects, that the Boards take all reasonable steps to maximize the prospect of converged, high-quality solutions. For example,

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2 Remarks at the University of Southern California SEC and Financial Reporting Institute Conference, Pasadena, California.
currently the Boards are not aligned as it relates to their approaches to consideration of hedge accounting in the context of their financial instruments project. Numerous conceptual, operational and practical questions have been raised based upon proposals to date that should be considered jointly by both Boards. I believe that, in the long run, a measure of added time to provide for joint deliberations on a project as critical and as complex as hedge accounting will prove to be far more beneficial than any gains that are perceived in finalizing deliberations individually."

To accomplish this outcome, both Boards must cooperate. We are not seeing cooperation with respect to hedge accounting. Either the IASB “train” needs to slow down or the FASB needs to get more involved very quickly, or both. Being a joint project, we believe the Boards need to work together and share ideas. We are concerned that the important area of hedge accounting will reach the same unsatisfactory outcome as the MOU project on post-employment benefits.

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We would be pleased to discuss these comments with you at your convenience. I can be reached at (212) 484-8112.

Sincerely,

Allan Cohen
Chair, Financial Reporting Committee
Institute of Management Accountants

cc: James L. Kroeker, Chief Accountant, SEC