



August 14, 2008

Ms. Suzanne O. Bielstein

Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 20

Re: Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133*

Dear Ms. Bielsten,

Bank Hapoalim B.M. (“Bank Hapoalim”) appreciates the opportunity to comment on the above-referenced Exposure Draft (the “ED”). The use of hedge accounting may have significant influence on our financial statements.

According to the provision of the Bank of Israel (Banking Supervision Department), the Israeli banks apply the guidance of FASB Statement No. 133, including its amendments and any interpretations. Therefore, the ED may have significant effect on financial reporting of Israel banks in general and on Bank Hapoalim in particular.

Overall, we support the Board’s effort in developing an accounting standard to simplify accounting for hedging activities and resolve differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items and transactions.

We believe it is impossible for the Board to provide guidance that would take into consideration every possible scenario regarding the possibilities of using hedging accounting; therefore we support the mainstream view of the board to reduce the number of risks available to hedge. However, we would like to emphasize the needs of many entities to hedge inflation risk, which resulted primarily from the recent year’s economic developments. The ED does not refer to the issue, and as a result the



inflation risk cannot qualify for hedge accounting. In our opinion, this kind of risk does not differ in nature from currency exchange risk. Thus, we believe the Board should consider its policy regarding inflation risk and permit inflation risk as qualified for hedge. Also, IAS 39, *Financial Instruments: Recognition and Measurement*, as amended recently in July 2008, is allowing for the designation of the contractually specified inflation portion of the cash flows of a recognized inflation link bond as the hedged risk.

We urge the board to consider our comment herein as we believe doing so will improve the financial reporting of hedging activities.

Very truly yours,

Levy Ofer
Senior Deputy Managing Director
Chief Accountant

Kalif Guy
Manager
Comptroller Division