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Submitted via electronic mail to director@fasb.org

File Reference No. 2011-175, Discussion Paper: Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting)

Dear Madam and Sir:

Intel is pleased to respond to your request for comment on the Discussion Paper: Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting). We support the Boards' efforts to improve and simplify the accounting for an entity's hedging activities. We appreciate the FASB's effort to solicit comments on the IASB's proposed revisions to IAS 39. We believe that the IASB's Exposure Draft ("ED") provides a valuable starting point for the FASB's development of derivatives and hedging guidance under US GAAP. We strongly support the IASB's efforts to align hedge accounting more closely with risk management objectives and to establish a more principles-based approach to hedge accounting.

We believe the IASB's proposed model will allow for a more appropriate reflection of an entity's risk management activities and the economic reality of its hedging positions in the financial statements. We believe the Boards can further realize the strengths of this model by recognizing that diversities in risk management strategies will exist; expanding the scope of what qualifies for hedge accounting; clarifying the Boards' interpretation of when a hedge is considered effective; and removing the preclusion to voluntarily discontinue a hedge relationship. We recognize that our request for clarifying guidance and examples may

appear to conflict with our support for a principles-based approach to hedge accounting; however, we want to ensure that the intent of the Boards in forming the authoritative guidance is clear and does not leave room for misinterpretation. Our suggestions are further explained in the following paragraphs; detailed responses to the questions presented in the Discussion Paper are included in an Appendix to this letter.

A Broad Definition of What Constitutes Risk Management May Result in a Difference Between the Accounting Interpretation of Risk Management and the Established Economic Principles of Risk Management

We support the IASB's proposed broad objective that hedge accounting reflects the effect of an entity's risk management strategies. We are concerned, however, that the ED does not clearly define risk management, which may lead to a situation in which one standard definition becomes the expectation, without acknowledging that differences in risk management strategies will likely exist by industry and company. We believe this would contradict both the IASB's intent to acknowledge that a wide variety of valid risk management strategies are available and its objective to establish a clear link between the economic principles of risk management and the accounting framework. We recommend that the Boards provide additional implementation guidance, including illustrative examples, to demonstrate that a wide variety of valid risk management strategies can be utilized in managing the same risk area.

We also acknowledge that while the ED is not explicit with regard to the level at which an entity's risk management objective must be defined, it appears to require a definition of risk management at a transactional level. Generally, entities consider risk management at a macro or portfolio level. By requiring risk management to be defined on a transactional level, the accounting requirements guide the economic risk management strategies. We believe this result conflicts with the principle proposed in the ED that the accounting for hedges should reflect an entity's economic risk management strategies. We recommend that the Boards allow constituents reasonable flexibility in defining risk management objectives at a level that is consistent with the entities' economic principles of risk management.

The Limitations on the Scope of What Qualifies for Hedge Accounting May Not Properly Reflect an Entity's Risk Management Objectives

We support the IASB's proposed broad objective to base hedge accounting on risk management strategies as it inherently expands the scope of the instruments that would qualify for hedge accounting. Instruments that will be eligible for hedge accounting under the ED will vary based its risk management objectives. However, we are concerned that the ED appears to limit the scope of what is considered an eligible risk management strategy. For example, we believe that risk management strategies that qualify for hedge accounting should not be limited only to those exposures that affect the profit or loss. Given the strategic nature of our equity investments, a large portion of our equity portfolio is classified as available-for-sale investments and, therefore, the related changes in fair value on these investments are recognized in other comprehensive income. To prohibit us from hedging foreign currency or equity risk on these investments appears to be at odds with the IASB's proposal to link the accounting framework with risk management strategies. We believe that there are many risk management strategies that an entity may implement to manage exposures that are not currently recognized in the P&L. We therefore recommend that the proposed model expand the scope of what qualifies for hedge accounting.

The Hedge Accounting Criteria of "Unbiased Result" and "Minimized Hedge Ineffectiveness" May be Interpreted as a Requirement to Produce a Perfect Hedge

We support the IASB's intent to simplify its current rules-based accounting guidance relating to the hedge effectiveness assessment through the removal of the 80-125% effectiveness bright line threshold and elimination of the retrospective effectiveness assessment. We believe that the ED's intent is to allow an entity reasonable flexibility to demonstrate the accounting effects within the risk tolerance levels of its specific risk management strategy. However, criteria such as an "unbiased result" and "minimized hedge ineffectiveness" could result in different interpretations of hedge ineffectiveness. To one entity, these criteria may suggest that no bias can exist at each assessment date and that ineffectiveness must be minimized to produce a perfect hedge, resulting in a higher threshold than the current 80-125% band. Another entity may determine that the criteria of an "unbiased result" and "minimized hedge ineffectiveness" have been met if there is no mismatch between the entity's risk management strategies and the accounting result. We encourage the Boards to provide sufficient application guidance of the hedge effectiveness assessment criteria to ensure that the intent of the Boards in forming the proposed accounting treatment is clear and does not leave room for misinterpretation.

We support the ED's proposal allowing an entity to continue a hedge relationship through rebalancing when such hedge relationship fails to meet the hedge effectiveness assessment criteria but the entity's risk management strategy remains unchanged. However, given the uncertainty around what constitutes hedge ineffectiveness, we are concerned that the requirement to rebalance from an accounting perspective could differ from the economic principles of rebalancing. An entity's economic risk management strategy is generally executed within certain risk tolerance levels and it is common to allow for fluctuations around the optimal hedge ratio within a certain tolerance band and we would not expect rebalancing to be necessary in these circumstances. We also believe that effective risk management is dynamic and responsive to changes in the environment. Minor alterations of risk management objectives that are responsive to environmental changes should not lead to mandatory accounting actions such as mandatory rebalancing or discontinuation. We believe that the accounting recognition should follow the underlying economic rationale for rebalancing. As a result, we believe that the ED's intent is to require the entity to rebalance the hedge relationship only if the hedge accounting designation is still desired. We recommend that the Boards clearly express the voluntary nature of rebalancing in the final standard to make certain their objective is apparent.

The Preclusion to Discontinue a Hedge Relationship Prevents the Use of Well-Founded Hedging Strategies

As we outlined in our response to the FASB's request for comment on the Exposure Draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities, and based on the IASB's ED, we are concerned about the proposals by both Boards that preclude an entity from voluntarily discontinuing a hedge relationship. There are several instances where the voluntary discontinuation of a hedge relationship is a reasonable and effective risk management strategy. For example, a widely used hedging strategy is to hedge a forecasted foreign currency transaction as a cash flow hedge through the expected cash flow date and then discontinue the hedging relationship upon the recognition of the liability. We believe that discontinuation should be permitted in this and other similar instances so that the accounting recognition reflects the effects of the entity's execution of its risk management strategy.

We believe that the changes proposed by the IASB provide a valuable starting point for developing a converged accounting standard under both IFRS and U.S. GAAP. We support the IASB's objective to provide more useful hedge accounting information by reducing the

complexity of hedge accounting and having it reflect an entity's risk management objectives and activities. In the interest of convergence, we hope that the Boards will consider the comment letter responses to this Discussion Paper as well as those provided in response to the IASB's Exposure Draft to ensure that the Boards are moving toward a common hedge accounting framework.

Thank you for your consideration of the points outlined in this letter. We would be pleased to work with the Boards in developing the guidance and examples that we believe would further strengthen the IASB's current proposed model. If you have any further questions or would like to discuss our responses further, please contact me at (971) 215-7931, or Liesl Nebel, Accounting Policy Controller, at (971) 215-1214.

Sincerely,

James G. Campbell

Vice President, Finance Corporate Controller Intel Corporation

Appendix

Question 1: When an entity uses financial instruments to manage risk exposures in economic hedges but those instruments are not designated in hedging relationships for accounting purposes, do you believe that the proposed guidance would provide useful information about all of the effects of an entity's risk management objectives?

We support the ED's proposal to link the accounting framework with risk management strategies. We recognize that entities may engage in numerous risk management activities and that not all of these activities will be designated as accounting hedges, even if economically similar to those that are. As mentioned in the main body of this letter, we also believe that hedge accounting objectives should not be limited only to those exposures that affect the profit or loss, as the ED appears to do. There are valid risk management strategies that an entity may undertake to manage economic exposures that affect other comprehensive income rather than the profit or loss. For example, a parent entity may hedge foreign currency exposure arising from its investment in a foreign subsidiary. Similarly, an entity with a portfolio of foreign currency denominated equity securities that are designated as available-for-sale securities with changes in fair value recorded in other comprehensive income may hedge foreign currency or equity risk exposures. We believe that both examples represent valid risk management strategies and should qualify for hedge accounting.

We also recognize that in a principles-based environment more disclosures will be necessary and, overall, we support the ED's proposal to request more transparency around the entity's risk management objectives through expanded disclosure requirements. We are concerned, however, that the ED's disclosure requirements are too granular. We believe that the existing FASB and SEC disclosure requirements regarding the entity's risks, the entity's risk management strategies and the effect that hedge accounting has on the entity's financial statements are sufficient and that the additional requirements proposed in the ED do not add significant incremental value to the users of the financial statements. Specifically, we do not support the ED's requirement to provide tabular disclosures by risk type and hedging instrument. Also, we do not agree with the ED's requirement to quantitatively disclose the monetary amount of the total exposure to which the entity is exposed. We believe that such disclosures should be qualitative and in enough detail to give the user an overall understanding of the nature of the entity's risk exposures and the entity's risk management strategy for each risk.

Question 2: Do you believe that the proposed guidance and illustrative examples included in the IASB's Exposure Draft are sufficient to understand what is meant by risk management, how to apply that notion to determine accounting at a transaction level, and how to determine the appropriate level of documentation required? Why or why not?

As mentioned in the main body of this letter, we are concerned that the ED does not clearly define risk management, which may lead to situations in which an accounting interpretation of risk management differs from the established economic principles of risk management. In addition, we are concerned that the ED appears to require that risk management objectives be defined at a transactional level. We do not believe it is practicable to apply risk management objectives on a hedge by hedge basis. We recommend that the Boards provide additional implementation guidance, including illustrative examples, to demonstrate that a wide variety of valid risk management strategies can be utilized in managing the same risk area; and allow constituents more flexibility in defining risk management objectives at a level that is consistent with the entities' economic principles of risk management.

Question 3: Do you foresee an entity changing how it determines, documents, and oversees its risk management objectives as a result of this proposed guidance? If yes, what changes do you foresee? Do you foresee any significant difficulties that an entity would likely encounter in establishing the controls related to complying with the proposed guidance?

We do not anticipate significant changes in the determination, documentation or management of our risk management objectives. Our current risk management process clearly defines risk areas to be managed, outlines permitted hedging instruments and hedging activities and ensures that a robust control infrastructure is in place.

Question 4: Do you foresee any significant auditing issues arising from the proposed articulation of risk management and its link to hedge accounting? For example, is the information required to be disclosed regarding an entity's risk management strategies measurable and objective? Could the inclusion of an entity's risk management objectives create an expectation gap that the auditor is implicitly opining on the adequacy of an entity's risk management objectives?

We encourage the FASB to solicit more detailed responses from audit practice professionals. Overall, we do not anticipate significant auditing issues as our risk management objectives are clearly defined and executed in accordance with documented policies and procedures. We believe that the auditors' responsibility should lie in ensuring that the preparers of the financial statements are complying with accounting principles. Specifically, auditors would focus on expressing an opinion on whether the entity's designated hedges are executed in compliance with the entity's documented risk management objectives and whether the entity's hedge transactions are recorded in accordance with accounting standards. The responsibility of determining the adequacy of the risk management objectives should reside with the entity's risk management groups and should not be subject to the auditor's opinion. However, we are unable to speak to whether our expectations would mirror those of audit practice professionals.

Hedging Instruments

The IASB's proposed guidance would permit an entity to designate as hedging instruments non derivative financial assets (for example, cash instruments such as debt securities) and non derivative financial liabilities measured in their entirety at fair value through profit or loss.

Question 5: Should cash instruments be eligible to be designated as hedging instruments? Why or why not? If yes, is there sufficient rigor to prevent an entity from circumventing the classification and measurement guidance in other relevant accounting guidance (for example, IFRS 9, Financial Instruments, and IAS 21, The Effects of Changes in Foreign Exchange Rates)? Are there any operational concerns about designating cash instruments (such as items within a portfolio of receivables) as hedging instruments?

We welcome the expansion of hedging instruments to include cash instruments. We believe this is consistent with the IASB's intent to enable the application of hedge accounting to better reflect the entity's risk management objectives. We do not foresee that allowing cash instruments to be designated as hedging items will lead to the circumvention of the classification and measurement guidance in other relevant accounting literature.

Hedged Items—Overall

Under the IASB's proposed guidance, a hedged item can be a recognized asset or liability, an unrecognized firm commitment, a highly probable forecast transaction, or a net investment in a foreign operation.

Question 6: Do you believe that the proposed guidance is sufficient to understand what constraints apply when determining whether an item in its entirety or a component thereof is eligible to be designated as a hedged item (for example, equity instruments measured at fair value through profit or loss, standalone derivatives, hybrid instruments, and components of instruments measured at fair value through profit or loss that are not permitted to be bifurcated)? If not, what additional guidance should be provided?

We support the ED's principles-based framework to determine what is eligible to be designated as a hedged item. However, through its illustrative examples, the ED appears to indicate that prepayment, credit and inflation risk components are unable to meet the "separately identifiable" and/or "reliably measurable" criteria and, thus, cannot be designated as hedged items. We disagree with the arbitrary exclusion of certain risk components as eligible hedged items.

As commented on in the main body of our letter and in our response to *Question 1*, we support the ED's proposal to link the accounting framework with risk management strategies. However, we are concerned with the ED's preclusion to designating equity instruments measured at fair value through other comprehensive income as hedged items. There are valid risk management strategies that an entity may undertake to manage economic exposures that affect other comprehensive income rather than the profit or loss. We believe that both of the examples we have provided represent valid risk management strategies and should qualify for hedge accounting. We recommend that the Boards ensure that the final hedge guidance truly links hedge accounting with risk management strategies by including within the scope exposures that affect profit or loss as well as other comprehensive income.

Hedged Items—Risk Components

The IASB's proposed guidance would specify that a portion (referred to as a "component") of an item can be designated as a hedged risk if it is separately identifiable and reliably measurable. Examples in the IASB's Exposure Draft illustrate that a hedged item could be a component that is not contractually specified or a component that is inferred.

Question 7: Do you believe that the proposed criteria are appropriate when designating a component of an item as a hedged item? If not, what criteria do you suggest? Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to determine when the criteria of separately identifiable and reliably measurable have been met? If not, please describe what additional guidance should be provided.

We support the ED's expansion of hedged items to include risk components in non-financial instruments. It is a common risk management strategy for entities that are exposed to a commodity price risk, to hedge one or more risk components rather than the entire item. In our opinion, the ED's removal of the arbitrary distinction between risk components of financial and non-financial instruments represents a significant milestone in establishing principles-based standards.

We also agree with the Board's proposal that a risk component must be separately identifiable and reliably measurable to qualify as a hedged item. As further discussed in our

response to *Question 8*, we agree that both contractually and non-contractually specified risk components should be eligible hedged items if the stated criteria are met. We recommend that the Boards provide more illustrative examples around non-contractually specified risk components to ensure uniformity in interpretation and application of the standard.

Question 8: Do you believe that "separately identifiable" should be limited to risk components that are contractually specified? Why or why not?

As articulated in our response to *Question 7*, we agree with the ED's proposal that both contractually and non-contractually specified risk components should be eligible hedged items if they are separately identifiable and reliably measurable. This is because while a risk component(s) may not be contractually specified, it may be a standard part of the pricing structure by market convention or an entity is able to infer an implicit pricing formula based on the relationship between the observable market price of the total item and risk component(s) within it. However, we recognize that a wide variety of analyses may be developed to identify and measure a non-contractually specified risk component(s) and, therefore, we recommend that the Boards provide more illustrative examples demonstrating the steps necessary to identify and measure a non-contractually specified risk component(s). In addition, we propose that the Boards also include illustrative examples demonstrating how the entity would assess effectiveness for a non-contractually specified risk component(s).

Hedged Items—Layer Component

The Exposure Draft would permit a layer component of the nominal amount of an item to be eligible for designation as a hedged item. A layer component may be specified from a defined, but open, population or from a defined nominal amount. However, a layer component of a contract that includes a prepayment option would not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk.

Question 10: Do you believe that the proposed guidance is sufficient to understand what constraints apply to determining a layer component from a defined, but open, population? (For example, do you believe that the sale of the last 10,000 widgets sold during a specified period could be designated a layer component in a cash flow hedge?) If not, what additional guidance should be provided?

We do not believe the proposed guidance in the ED is sufficient to understand what constraints apply to determining a layer component from a defined, but open, population. The phrase "open population" does seem to suggest that the last 10,000 widgets in a specified time period might be an acceptable hedged item. We do not believe the proposed guidance around determining a layer component applies to cash flow hedges or fair value hedges with similar characteristics as cash flow hedges (hedges of firm commitments) given that "the sale of the last 10,000 widgets sold during a specified period" is not identifiable for a cash flow hedge until the end of the period. We believe there is merit to the idea that hedged items should be objectively identifiable at the time they are recognized in the financial statements. If the proposed guidance intends to support this idea, then we believe the language could be clarified.

Hedged Items—Aggregated Exposures and Groups of Items

The IASB's proposed guidance would permit an entity to apply hedge accounting to aggregated exposures and groups of items, including net positions.

Question 11: Do you foresee any operational concerns applying other guidance in IFRS (for example, guidance on impairment, income recognition, or de-recognition) to those aggregated positions being hedged? For example, do you foresee any operational concerns arising when an impairment of individual items within a group being hedged occurs? If yes, what concerns do you foresee and how would you alleviate them?

While we do not foresee operational concerns applying other guidance in IFRS, this guidance currently has limited applicability to our hedging activities. Therefore, we encourage the Boards to solicit input from constituents with greater experience in this area.

Question 12: Do you believe that the proposed guidance on aggregated exposures will provide more transparent and consistent information about an entity's use of derivatives? Why or why not?

While those who favor prescriptive and detailed disclosures may argue that aggregation could decrease transparency, we believe a more principles-based approach will enable entities to increase the overall clarity and usefulness of disclosures by aligning disclosure with the entity's true perspective on risk management.

Given the potential operational complexities with the effectiveness assessment and the accounting for hedges of aggregated exposures, we encourage the Boards to include illustrative examples in the implementation guidance demonstrating possible approaches.

Question 13: Do you believe that an entity should be permitted to apply hedge accounting to a group of cash instruments or portions thereof that offset and qualify as a group under the proposed guidance and satisfy the proposed hedge effectiveness criteria? Why or why not?

We agree that an entity should be permitted to apply hedge accounting to a group of cash instruments or portfolios that offset and qualify as a group under the proposed guidance in the ED.

Hedge Effectiveness

To qualify for hedge accounting, the IASB's proposed guidance would require that the hedging relationship (a) meets the objective of the hedge effectiveness assessment (that is, to ensure that the hedging relationship will produce an unbiased result and minimize expected hedge ineffectiveness) and (b) is expected to achieve other-than-accidental offset.

Question 14: Do you foresee any significant operational concerns, including auditing issues, in determining how to assess whether a hedge achieves other-than-accidental offset? If yes, what concerns do you foresee and how would you alleviate them?

As mentioned in the body of this letter, we support the Boards' intent to simplify current rules-based accounting guidance relating to hedge effectiveness assessment. We believe that an "unbiased result" and "minimized hedge ineffectiveness" could be interpreted differently by the preparers of the financial statements as well as the audit profession and, therefore, we encourage the Boards to provide sufficient illustrative examples demonstrating the application of the hedge effectiveness assessment criteria.

Also, we think that it is possible to have a valid risk management strategy that is somewhat "biased" due to operational reasons. For example, in commodity hedging, an uncomplicated hedge ratio (e.g., 1:1) may be significantly easier to monitor and rationalize than a perfect hedge ratio (e.g., 1:1.05). If the interpretation of the criteria is that a perfect hedge must exist, in this situation, the entity would not meet the hedge accounting requirements. In addition, as we further address in the main body of this letter, the entity's economic risk management strategy is generally executed within certain risk tolerance levels and, thus, the requirement to constantly eliminate bias for accounting purposes through rebalancing in order to continue qualify for hedge accounting would contradict the economic risk management strategies of the entity.

Although we agree with the ED's notion of "other than accidental offset", as we further address in our response to *Question 15*, we recommend that the Boards provide clarification regarding the application of this criterion.

Question 15: Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to analyze hedge effectiveness (for example, how to measure the change in the value of the hedged item attributable to the related hedged risk for nonfinancial items)? If not, what additional guidance is needed?

While we recognize that the guidance proposed in the ED may require additional judgment, we recommend that the Boards provide guidance and/or illustrative examples to clarify:

- The assessment of hedge effectiveness and the measurement for hedge relationships with aggregated exposures and hedges of risk components in non-financial instruments where the risk component is not contractually defined;
- When a quantitative vs. qualitative assessment of "other than accidental offset" is required;
- Whether the results of the entity's assessment of an economic relationship to support the "other than accidental offset" requirement must be documented each accounting period or only at inception;
- In what situations, other than credit deterioration of the counterparty, an economic relationship is presumed to have broken; and,
- The application of hedge effectiveness assessment criteria ('unbiased result" and "minimized hedge effectiveness"), demonstrating that a reasonable flexibility within the risk tolerance levels is permitted.

By clarifying these areas, the Boards will ensure that their intent in developing the proposed accounting treatment is clear and does not leave room for misinterpretation.

Changes to a Hedging Relationship

The IASB's Exposure Draft would permit and sometimes require an entity to "rebalance" an existing hedging relationship and continue to account for the revised hedging relationship as an accounting hedge. However, when there is a change in the entity's risk management objective for a hedging relationship or a hedge ceases to meet the qualifying criteria, the IASB's Exposure Draft would require the entity to discontinue hedge accounting.

Question 16: Do you foresee any significant operational concerns or constraints in determining whether (a) a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship or (b) an entity's risk management objective has changed? If yes, what concerns or constraints do you foresee and how would you alleviate them?

As mentioned in the main body of this letter, we believe that the accounting recognition should follow the underlying economic rationale for rebalancing and, thus, we interpret the ED's intent as a requirement to rebalance the hedge relationship only if the hedge accounting designation is still desired. We suggest that the Boards clearly express the voluntary nature of rebalancing in the final standard. Also, we recommend that the Boards provide more illustrative examples to demonstrate what type of changes in risk management objectives would lead to discontinuation vs. re-balancing. Finally, we believe that voluntary de-designation should be permitted so that accounting recognition reflects the effects of the entity's execution of its risk management strategy.

Question 17: Do you foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting? If yes, what concerns or constraints do you foresee and how would you alleviate them?

We believe that a rebalancing requirement could generate significant complexity, and as a result, operational challenges, in the effectiveness assessment and measurement. As a result of adjusting the volume for either the hedged item or the hedging instrument in order to optimize the entity's hedge ratio, the hedge relationship would include multiple layers of hedged items and hedging instruments that will have different terms. This additional complexity could require significant changes to the entity's systems and process designs.

Accounting for the Time Value of Options

For transaction-related hedged items, the IASB's Exposure Draft would require an entity to capitalize the time value of an option as a basis adjustment of the hedged item if the hedged item subsequently results in the recognition of a nonfinancial asset or liability.

Question 18: Do you believe that capitalizing the time value of an option as a basis adjustment of nonfinancial items (in other words, marking the asset or liability away from market) will improve the information that is provided in an entity's statement of financial position? Why or why not?

We believe that the hedging instrument engaged to hedge a specific risk component(s) of a non-financial item should be viewed as an integral part of the total cost of the non-financial instrument, and, thus, hedge gains/losses on the hedging instruments should be included as a basis adjustment for non-financial items.

Hedge Accounting and Presentation

For fair value hedges, the IASB's Exposure Draft would change the recognition of gain or loss on the hedging instrument and hedged item (for changes in the hedged risk). Those gains or losses would be recognized in other comprehensive income rather than through profit or loss. An entity would be required to measure ineffectiveness and transfer any ineffective portion of the gain or loss from other comprehensive income to profit or loss.

Question 19: Do you believe that the proposed presentation of the gains and losses in other comprehensive income will provide users of financial statements with more useful information? Why or why not?

We do not understand how the presentation of gains and losses on fair values hedges within other comprehensive income rather than through the profit or loss will provide the users of

the financial statements with more useful information. Because the ineffective portion of the hedge relationship is transferred to the profit or loss, we would expect that the amount that is deferred in other comprehensive income for the effective portion of the fair value hedge would always be zero. As a result, we believe that requiring the netting of gains or losses of a hedged item and a hedging instrument(s) in a fair value hedge relationship to be recognized in other comprehensive income will increase operational complexity without providing any incremental benefit to the users of the financial statements.

Question 20: Do you believe that the proposed presentation of a separate line item in the statement of financial position would increase the transparency and the usefulness of the information about an entity's hedging activities? Why or why not?

We agree with the ED's proposed changes to present fair value hedge gains or losses as a separate line item in the statement of financial position. We believe such presentation would increase the transparency of the changes in the fair value of the hedged item to the users of the financial statements.

However, when entities apply multiple hedge accounting models to hedge different types of risk, the resulting impact to the statement of financial position may unnecessarily overwhelm the users of the financial statements. Furthermore, there may be instances when the entity would be required to show a negative asset or a positive liability when the hedging instrument is in a loss or gain position, respectively, which the users of the financial statements may find counter-intuitive. We recommend that the Boards allow entities to accumulate hedge gains and losses for fair value hedges within one single line in the statement of financial position. We recognize and support the need for increased disclosures to ensure that the users of the financial statements have visibility into the composition of this single line item in the statements of financial position.

Question 21: Do you believe that there is sufficient guidance to specifically link the hedging adjustments to the hedged assets and liabilities that compose a hedged net position with respect to presenting a separate line item in the statement of financial position?

As discussed in our response to *Question 20* we recommend that the hedge gains and losses for fair value hedges be presented within one single line in the statement of financial position.

Disclosures

The Exposure Draft would require disclosures about the risks that an entity decides to hedge and for which hedge accounting is applied.

Question 22: Do you foresee any significant auditing issues arising from the inclusion of risk management disclosures in the notes to the financial statements? If yes, what issues do you foresee and how would you alleviate them? Do you believe that it is appropriate to include risk management disclosures in the notes to the financial statements rather than in other information in documents containing financial statements? Why or why not?

Since this is the Board's only question on disclosures, we want to take the opportunity to provide an overall comment on the ED's disclosure requirements. We recognize that in a principles-based environment, more disclosures will be necessary and, overall, we support the ED's proposal to request more transparency around the entity's risk management objectives through expanded disclosure requirements. As highlighted in our response to

Question 1 we are concerned that the ED's disclosure requirements are too granular. Specifically, we do not support the ED's requirements in paragraph 46 to disclose for each subsequent period a breakdown of the monetary amount or other quantity to which the entity is exposed, the quantity of the risk exposure hedged and how the hedging changes the exposure. Disclosing the degree to which forecast transactions are hedged is no doubt of some value, but we question whether it will be practical, particularly over a long time period. Rather, we believe that disclosures should be qualitative and in sufficient detail to provide the user an overall understanding of the nature of the entity's risk exposures and the entity's risk management strategy for each risk.

We believe that the existing FASB and SEC disclosure requirements regarding an entity's risks; risk management strategies; and the effect that hedge accounting has on its financial statements are sufficient and that the additional requirements proposed in the ED do not add significant incremental value to the users of the financial statements. However, to avoid redundancy, we would support the consolidation of all risk management related disclosures in the notes to the financial statements or the ability to reference previously provided disclosures in documents containing the financial statements.

Although we encourage the Boards to solicit more detailed responses from audit professionals, we do not anticipate significant auditing issues with respect to the ED's disclosure requirements as they largely represent a convergence with the current FASB and SEC disclosure requirements.

Other

The Exposure Draft proposes changes to certain aspects of accounting for derivatives and hedging activities beyond just those linked to financial instruments. There are many other aspects that differ between U.S. GAAP and IFRS relating to the accounting for derivatives and hedging activities.

Question 23: Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to U.S. GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to U.S. GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standards

We believe that the changes proposed by the IASB provide a valuable starting point for the FASB's development of derivatives and hedging guidance under US GAAP. We support the IASB's objective to provide more useful hedge accounting information by reducing the complexity of hedge accounting and having it reflect an entity's risk management objectives and activities. In the interest of convergence, we hope that the Boards will consider the comment letter responses to this Discussion Paper as well as those provided in response to the IASB's Exposure Draft to ensure that the Boards are moving toward a common hedge accounting framework.