

April 26, 2011

Alcoa

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Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116 U.S.A. International Accounting Standards Board First Floor 30 Cannon Street London EC4M 6XH

By email: director@fasb.org

By website: www.ifrs.org

Re: FASB File Reference No. 2011-100

Re: IASB ED/2011/11

UNITED KINGDOM

Dear Madam or Sir:

We appreciate the opportunity to respond to the Exposure Draft on Offsetting Financial Assets and Financial Liabilities. Alcoa is the world's leading producer of primary aluminum, fabricated aluminum and alumina. Being a global industrial firm with significant exposure to commodity price and exchange rate movements, we engage in numerous hedging activities using derivative instruments that have offsetting exposures and various maturities. As such, the netting of those exposures is a critical financial statement presentation issue for us and we offer our comments on the Boards' proposal below.

To date, with regard to the Financial Instruments project, we have been of the opinion that the approach taken by the IASB in a number of areas (specifically, recognition/measurement and hedging) has been the preferable approach towards which the convergence efforts should move. However, in the case of this exposure draft, we would strongly urge the Boards to move towards a solution that aligns more with current US GAAP. Our concerns with the exposure draft primarily have to do with what we perceive as overly restrictive requirements for offsetting and the onerous disclosure requirements, both of which we believe will not result in the most useful presentation of our exposures in these areas. Our comments on those two areas are provided below.

Requirements for Offsetting

In general, we believe that the portrayal of our derivative positions in our financial statements should mirror how we view these instruments from a risk management standpoint. In the case of Alcoa, we enter into many of our derivative contracts through brokers in the over-the-counter market. In monitoring our positions with these firms, we only look at our positions on a net basis as we have a legally enforceable right to offset outstanding balances with each broker. This practice has worked well for us over the years, even in the volatile situations brought on in the recent financial crisis.

We believe a legally enforceable right of offset is a sufficient criterion for offsetting derivative positions on the balance sheet, regardless of conditionality or simultaneous settlement. Accordingly, we fail to see the need for the requirement in the exposure draft that two offsetting contracts need to be either settled net or simultaneously or the requirement that the right of offset be "unconditional" in order to be able to offset contracts positions in the financial statements. We view this presentation as unnecessarily "grossing up" our assets and liabilities and providing what we believe to be an overstated portrayal of our true credit exposures.

From a practical standpoint, as we manage our brokerage exposures on a net basis, the systems we use are configured to readily provide only net exposure information by broker and maturity. As we have numerous positions with various brokers, we are finding it extremely difficult to even estimate the impact on our financial statements of the presentation required in the exposure draft. As a result, to comply with the exposure draft, our derivative reporting systems will need to be substantially modified to provide information we do not use internally or deem relevant to evaluate our risks.

We would urge the Boards to continue in the vein of their previous deliberations on areas such as hedging, where the external reporting of those activities mirrors how management evaluates and manages those risks. We believe this reporting objective is effectively achieved under existing US GAAP and would ask the Boards to consider converging more towards those standards.

Offsetting of Cash Collateral under Derivative Contracts

In Alcoa's case, we have various types of cash collateral which we post on our derivative contracts. The most prominent type is variation margins on certain derivative contracts which require us to effectively settle the net exposure on those contracts daily. In some rare cases, we also pay initial cash collateral on certain contracts. Regardless of whether we post the collateral at the outset or on a daily basis, for purposes of managing our risks, we view our true exposure at any point in time to be the positions in these contracts <u>net</u> of any collateral.

In all cases - upon termination, maturity or bankruptcy - these contracts will ultimately be net settled. We therefore view the presentation on the financial statements of the gross exposures of these contracts to be an overstatement of our true positions and risks. We believe, by disclosing the amount of collateral separately in the footnotes as we currently do under US GAAP, the reader is presented with adequate information to assess the risks in a matter very similar to how we view them for management purposes.

Disclosures

Consistent with the comments above, we would seriously question the cost/benefit relationship of the proposed disclosure requirements in the exposure drafts. As mentioned, our systems do not currently have the capability of generating the information

required in the exposure draft. Requiring companies to provide the readers of financial statements with a considerable volume of information that is not even utilized by management will, in our opinion, run the risk of confusing more than clarifying.

We believe the already sizable disclosures currently required under US GAAP to be sufficient for the reader of the financial statements to understand the risk associated with our use of derivatives contracts. To the best of our knowledge, during the recent economic crisis, we are not aware of situations in which we were queried for more information about these positions.

We therefore believe the cost of providing the additional disclosures required in this exposure draft will not provide significant incremental value to readers, certainly not enough to justify the costs necessary to amend our systems and processes in order to obtain this data.

We appreciate the opportunity to comment on this proposal.

Sincerely,

Graeme Bottger

Vice President and Controller