



May 14, 2013

Mr. Russell G. Golden, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Via Email to [director@fasb.org](mailto:director@fasb.org)

Re: File Reference No. 2013-220

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Dear Mr. Golden,

We appreciate the opportunity to comment on the proposed Accounting Standards Update, « *Recognition and Measurement of Financial Assets and Financial Liabilities* ». We applaud the efforts of harmonization made by the FASB and IASB. In the context of a global economy, we believe that the requirements concerning financial instrument measurement, disclosure and presentation ought to promote comparability of financial reports between entities. In our opinion, convergence between U.S. and international standards is essential in an area as important as financial instruments.

The following pages provide a brief picture of Hydro-Québec, along with our comments on specific points in the proposal.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Lise Croteau', written over a horizontal line.

Lise Croteau, FCA  
Vice President – Accounting and Control  
Hydro-Québec

Hydro-Québec is a Crown corporation whose mission under its governing statute is to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy. In Québec, electricity transmission and distribution activities are regulated by the Régie de l'énergie (energy board).

The capital structure of Hydro-Québec is on the order of 61% based on bonded debt (\$43 billion), of which 21% is payable in foreign currencies and nearly 9% is in the form of floating-rate bonds. This represents a significant exposure to foreign exchange and interest rate risks, which explains why the enterprise has adopted a sophisticated management strategy for these risks.

Hydro-Québec hedges future revenue streams denominated in US dollars using debt totaling nearly \$350 million, so as to manage a significant portion of its foreign exchange risk exposure. Hydro-Québec also enters into swap and forward contracts that serve as a hedge for both the principal and interest repayments on debt. Some swaps also modify the long-term exposure to interest rate risk.

Several other types of derivative instruments are also used to manage short-term and long-term foreign exchange and interest rate risk exposures. In addition, specific risks are managed through derivative instruments, i.e., raw material price risks and market risks resulting from fluctuations in energy prices.

## **COMMENTS ON THE FASB EXPOSURE DRAFT “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities”**

### **CLASSIFICATION**

In our comments on the first exposure draft « *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* », we stated that we were very much in disfavour with a measurement model whose basic premise is fair value. We indeed preferred the proposal set forth in the first exposure draft of the IASB « *Financial Instruments: Classification and Measurement* » based on two categories: amortized cost and fair value.

We applaud the efforts of harmonization which emerged from the joint meetings between FASB and IASB. The proposals of both are now very similar. We agree with the model based on three categories: amortized cost, fair value with qualifying changes recognized in other comprehensive income and fair value with all changes recognized in net income depending on the business model and the cash flow criteria.

As we mentioned earlier, we preferred the two-category model initially proposed by the IASB but we agree with the addition of a third category for the benefit of harmonization between FASB and IASB. However, it is clear that the objective of simplification on which was based the remodelling of IAS 39 and Topic 825 is not met.

Moreover, we do not understand why the “embedded derivative” concept has not been incorporated back into financial assets. We think that it should be the same as for financial liabilities. In our opinion, it would add to the consistency of one of the Topic 825 objectives, which is to recognize financial instruments within a business model that an entity applies to manage such instruments. In our opinion, it would not be representative to report financial assets as a whole at fair value if such assets are comprised of two different items, i.e., a financial asset with contractual cash flows and a derivative.

### **INITIAL MEASUREMENT**

As we stated in our comment letter sent to FASB in September 2010, the approach for initial measurement strikes us as unnecessarily complex. We believe it would be much simpler to use fair value as the basic premise, barring exceptions. We do not see the utility of making a distinction between financial instruments measured at amortized cost and financial instruments measured at fair value with changes recognized in other comprehensive income. We think it would be enough to provide for exceptions.

The requirement imposed on entities to assess whether there is a difference between fair value and the transaction price increases the complexity of the initial measurement. In this regard, we prefer the IASB’s proposal, which considers fair value generally equivalent to the transaction price, apart from specific exceptions.

**COMMENTS ON THE FASB EXPOSURE DRAFT “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities”**

**SUBSEQUENT MEASUREMENT**

We agree with the recognition in net income of the exchange gains and losses resulting from translation of foreign debt classified as financial instruments for which qualifying changes in fair value are recognized in other comprehensive income.

**PRESENTATION AND DISCLOSURES**

Balance sheet

We strongly dissent from presenting on the face of the balance sheet any information other than the recognized value. We also disagree strongly from presenting separately the financial assets and liabilities between each category on the face of the balance sheet. Finally, we do not approve the presentation of cumulative credit loss on the face of the balance sheet for the financial assets measured at amortized cost. From our point of view, all this additional information would needlessly weigh down the presentation of the entity's financial position.

Income

As we stated in our comment letter sent to FASB in September 2010, we do not agree with the requirement to present realized and unrealized gains separately within net income. First, we think it would be opportune for the proposal to contain a clear definition of the terms “realized” and “unrealized.” According to our understanding, a realized gain would be a gain for which there is a cash inflow, contrary to an unrealized gain. Based on this definition, when a financial instrument is reported at fair value, we would recognize unrealized gains; but when a financial instrument is reported at cost, only the realized gains would be recognized in net income. In this context, since fair value is generally disclosed in a note, financial statement users are able to assess potentially unrealized gains and losses.

Disclosures

For financial assets classified as financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, additional disclosures are required to reconstitute amortized cost. As we stated in September 2010, these disclosures do not shed any relevant light on an entity's financial position, weigh down the financial reporting and consequently do not meet the objective of simplifying accounting for financial instruments.

**COMMENTS ON THE FASB EXPOSURE DRAFT “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities”**

**EQUITY METHOD OF ACCOUNTING**

In response to question 34, we believe that the conditions are relevant and applicable in practice. However, certain entities that are currently subject to the equity method of accounting may meet the held-for-sale criteria because they are limited-life entities. The exit strategy should be linked to a transfer of investment, as opposed to a liquidation or dissolution of the investment.

In response to question 35, we are in favor of eliminating the other-than-temporary notion for such investments. An impairment should be recognized without waiting to determine if it is temporary, since this is a subjective notion.

However, removal of this concept should be accompanied by the addition of a possible impairment loss reversal at a later stage, as in IFRS. Otherwise, there may be a faster and greater recognition of impairment, when in fact an investment held for the long term can regain value over time. The other-than-temporary notion avoided the recognition of temporary losses in value in the case of long-term investments.