

To the IASB,

These are FEMSA's answers to the ED on Hedge Accounting, All in all, FEMSA agrees with the main changes the ED proposes.

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

Yes. We agree, hedge accounting must present in the financial statements the effects of risks taken by the management.

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

Yes, because this will be consistent with companies' practices that use non-derivatives as hedging instruments.

Question 3

Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?

Yes, because it would be easier for companies to manage a risk strategy for a combination of risks (such as interest rate and foreign exchange) instead of having to manage them separately.

Question 4

Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (ie a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?

Yes, this is also consistent with industry practice, and we agree with the requirement that the risk component be separately identifiable and reliably measurable.

Question 5

(a) Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?

Yes, we agree. This change is very helpful in the definition of the hedging strategy.

(b) Do you agree that a layer component of a contract that includes a prepayment option should 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? Why or why not? If not, what changes do you recommend and why?

We agree it would make the hedged designation very difficult to measure. It would also make the designation circular and would not meet the objective of hedge accounting.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

Yes, hedge effectiveness should be defined at the inception of the derivative and continuously assessed but not based on a numeric range.

Question 7

- (a) Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?

We agree because it should be imperative that the risk management objective for a hedging relationship remains the same. If not, the hedge accounting will fail to meet its objective.

- (b) Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?

Yes, in both cases, rebalancing a hedging relationship will avoid reflecting virtual gains/losses due to effectiveness.

Question 8

(a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

a) Yes.

b) We agree as long as the original market conditions for the underlying and the company are the same.

Question 9

(a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?

a) No. We suggest that it should remain like it is right now. The process of recording everything first in OCI and then transferring the ineffective portion to P&L is basically one more step in the derivative accounting.

b) No, this presentation would require much more control by management in order to present properly this information in the balance sheet.

c) Yes, it should be allowed

Question 10

(a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (eg like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?

(b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?

(c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (ie the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?

a) Yes. In this way changes in fair value are reflected in the impacted account.

b) Yes, as long as the time value relates to the hedged item.

c) Yes. This ensures that only the time value related to the hedged item will affect P&L, and it eliminates the market risk noise that sometimes has nothing to do with the business.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?

Yes, eligibility should not be limited to a single item.

Question 12

Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (eg in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

No. That information should be presented in the notes to the financial statements,

Question 13

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why? (b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

- a) Yes, although actually there are too many disclosures requirements, but we understand that these kinds of transactions require much more explanation than others due to the implied risk.
- b) No other disclosure is needed.

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

No, if the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage, should not be accounted for using hedge accounting. This disrupts the simplicity that the financial statements should strive to maintain.

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

- a) Yes, hedge accounting should prevail.
- b) Alternative number 3.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

Yes, they allow entities to early adopt and give enough time to those that are not closely following derivatives accounting.