

March 9, 2011

Sir David Tweedie
Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft, *Hedge Accounting* (File Reference ED/2010/13)

Dear Sir David:

We appreciate the opportunity to comment on the Exposure Draft, *Hedge Accounting* (the Proposed Standard). Bank of America Corporation provides a diverse range of banking and non-banking financial services and products domestically and internationally. We are the largest bank in the U.S. in terms of total assets and routinely enter into derivatives for risk management purposes. We are, accordingly, very focused on the efforts of the International Accounting Standards Board (the IASB or the Board) along with the Financial Accounting Standards Board (the FASB and together with the IASB, the Boards) to amend the hedge accounting guidance.

We support the Board's efforts to simplify hedge accounting, address weaknesses in the current model and improve the objective of hedge accounting by focusing on the alignment of hedging and risk management. However, there are certain aspects of the Proposed Standard that, in our view, will not meet these objectives either because they do not result in alignment with risk management or do not adequately simplify hedge accounting.

Most importantly, we do not support the IASB's proposed model for hedge effectiveness. As discussed in our response to your specific questions, we believe that the IASB's proposed model sets too high of a standard and, if applied as written, is likely to lead to unintended consequences that would conflict with the IASB's stated objectives. Specifically, we believe the effectiveness threshold that requires the hedging relationship to have an "unbiased result" that "minimizes ineffectiveness" directly conflicts with the Board's objective of aligning hedge accounting with risk management strategies. We believe that the effectiveness model proposed by the FASB, which was well received by its constituents, greatly simplifies the existing model and meets the overriding hedge accounting objectives set by the IASB. Therefore, we urge the IASB to adopt the model proposed by the FASB whereby hedge effectiveness would be assessed using a "reasonably effective" threshold with qualitative testing used in most assessments and no ongoing effectiveness testing required unless changes in circumstances suggest that the hedging relationship is no longer reasonably effective (which we believe could be demonstrated, for example, when there are changes to any of the critical terms of the hedging relationship.)

We are also concerned about the guidance on hedging of risk components. While we support the principle that requires the risk to be "separately identifiable and reliably measurable", we believe that the guidance is too prescriptive in specifically indicating that credit, inflation and prepayment risks do not meet that requirement. We believe that these components would be able to meet the requirements. In addition, we are concerned that providing specific prohibitions will inevitably result in a more rules-

based standard and accordingly recommend that the Board allow reporting entities to make these determinations based on their experience.

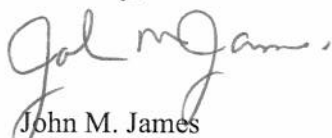
In addition, we do not agree with the prohibition on voluntary dedesignation and redesignation, which would unnecessarily restrict the use of many valid hedging programs. We believe that voluntary dedesignations should be permitted to allow companies to appropriately adjust hedge relationships in accordance with their risk management objectives. However, although we would prefer the guidance to permit voluntary dedesignation and redesignation, we would not object to an approach whereby rebalancing is permitted at any time (rather than only to proactively prevent a relationship from failing the hedge accounting criteria in a future period). With a rebalancing approach, companies would no longer be required to dedesignate and redesignate their hedge accounting relationships. Rather, they would rebalance the relationships in an approach considered to be a continuation of the existing hedge. This would continue to facilitate a company's need to modify its hedge relationships to properly reflect the changes in their risk management objectives.

See Appendix A for our responses to certain questions presented by the Board.

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We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Randall Shearer (980.388.8433) or me (980.387.4997).

Sincerely,



John M. James
Senior Vice President and
Corporate Controller

cc: Charles H. Noski, Chief Financial Officer
Neil A. Cotty, Chief Accounting Officer
Randall J. Shearer, Accounting Policy Executive

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The following are our responses to certain of the questions presented by the Board:

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 with the proposed objective. The concept of aligning hedge accounting with risk management strategies is an improvement over the existing guidance of both the IASB and FASB. In our opinion, the current guidance frequently results in accounting that is overly dependent on extensive documentation and hedge accounting can be disallowed simply because the documentation is insufficient (without regards to the economics). In addition, given the strict rules surrounding the application of hedge accounting, in many instances the guidance prohibits hedge accounting even though economic and risk management objectives are met. However, as noted in our responses to the questions below, we do not believe that the guidance, as written, fully supports this objective.

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 (i.e., 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?

We agree with the principle established in the Proposed Standard that provides for hedging of any risk component that is “separately identifiable and reliably measureable.” However, we are concerned that some areas of the Proposed Standard presuppose that certain risks cannot be separately identified and/or reliably measured. Specifically, we do not understand why the Proposed Standard (e.g., paragraphs IN46, IN47 and BC220) implies that credit risk cannot be separately hedged because it is “operationally difficult (if not impossible) to isolate and measure the credit risk of a financial item as a component that meets the eligibility criteria for hedged items”. While it may be operationally difficult, we do not agree that credit risk cannot be isolated and reliably measured, and note that it is, in fact, required under current U.S. GAAP guidance for determining the impairment of a debt security. We similarly fail to understand why the Proposed Standard prohibits designation of inflation as a hedged risk unless it is contractually specified (paragraph B18) or designation of a layer component that includes a prepayment option (paragraph B23). In our view, statements of prohibition such as those identified above will inevitably lead to a rules-based application of the standard which is counter to the objective of simplification. Although certain risk components may currently be difficult to isolate in a manner that meets the “separately identifiable and reliably measureable” criterion, financial innovations may make such isolation possible in the future, which would then in turn require amendments to the Standard. Therefore, we recommend that the final standard exclude this kind of language.

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?*
- (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?*

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We agree that a company should be allowed to designate a layer of the nominal amount of an item as the hedged item. However, we do not agree that a layer component that includes a prepayment option should be prohibited from being considered a hedged item in a fair value hedge, and it is not clear to us why the Proposed Standard includes this prohibition. This prohibition would have a significant negative impact on many hedging programs that are in wide use today.

Generally, residential mortgage loans and mortgage-backed securities (MBS) contain prepayment risk because the loans (or underlying mortgage loans in the case of an MBS) may be prepaid by the borrower at any time. Prepayment risk is primarily driven by changes in interest rates because, as rates rise, prepayment speeds decrease; conversely, as rates fall, prepayment speeds rise. Therefore, the fair value of the prepayment option in a residential mortgage loan or MBS would be affected by changes in interest rate risk, which is the predominant risk hedged when mortgage loans and MBS are included in hedging relationships.

In most related hedging relationships, entities designate a portion of the related asset (or assets in the case of groups of mortgage loans) as the hedged item due to the varying balances and the nature of borrowers' prepayments. Furthermore, given the size of certain MBS assets or groups of mortgage loans, it may be necessary to use multiple derivatives to hedge the entire relationship, which would require the use of the layering approach. We believe it is essential that preparers continue to have the ability to hedge such instruments via the layering technique and recommend that the prohibition to hedging a layer when the hedged item includes a prepayment option be removed.

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?

We do not agree with the proposed hedge effectiveness requirements. While we support the efforts of the IASB to simplify the hedge effectiveness requirements, we believe that the current proposal will not achieve this objective, is likely to result in a significant number of hedging relationships failing to meet the hedge effectiveness criteria and may result in additional operational challenges. We believe that the proposal presented by the FASB, which would modify the effectiveness threshold from "highly effective" to "reasonably effective," would be a better approach to the effectiveness assessment.

The Proposed Standard states that the effectiveness threshold would be based on a hedging relationship that produces an "unbiased result" and "minimizes expected hedge ineffectiveness" and results in "other than accidental" offsetting. The concept of a relationship that leads to an "unbiased result" appears to be at odds with the objective of aligning hedge accounting with a company's risk management objectives because the use of hedge accounting is primarily in place to allow the company to reflect in its financial statements the mitigation of certain risks based on its overall risk strategies. Included in those strategies could be a bias toward an expected change in certain risk components, such as an expected movement in interest rates. As such, companies would consider hedge accounting as a means to address their interest rate risk exposures in line with their expectations of such changes. This could easily result in a biased hedge, where perfect effectiveness is not desired to meet the risk management objectives. We do not believe there is a reason to prohibit the use of a biased hedge where a company records the related ineffectiveness in earnings. In our view, by instituting the "unbiased result" threshold, the hedge effectiveness requirements will be stricter than the current "highly effective" threshold. Similarly, the

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requirement to “minimize ineffectiveness” could be interpreted to require a company to choose an optimal hedge rather than a reasonable hedge even when the cost of the optimal hedge is prohibitive.

Further, the combination of requiring rebalancing of the hedge ratios and the need to maintain an “unbiased result” that minimizes ineffectiveness on a prospective basis, could lead companies to rebalance certain hedge strategies on a frequent basis (potentially quarterly) even in instances where the optimal hedge ratio is not aligned with the company’s risk management strategy. This requirement to rebalance could result in additional costs (associated with adjusting the actual hedging instrument) and will certainly increase the operational difficulties already present in maintaining hedge accounting compliance. Companies that under current accounting guidance are able to consider a hedge “good enough” based on the highly effective threshold, will be required to rebalance that hedge to remove any “bias” and optimize the hedge.

We also do not support the need for ongoing, prospective assessments of hedge effectiveness. Rather, we again support the FASB’s proposal to require effectiveness assessments after inception of the hedging relationship only if circumstances would lead a company to believe that the relationship is no longer effective. We believe those circumstances should be limited to situations where any of the critical contractual terms of either the hedging instrument or the hedged item have been modified.

We believe that there have been many occasions whereby a relationship has failed the “highly effective” threshold only in the early or late monthly periods of a hedging relationship (due to, for example, the “law of small numbers” whereby small changes in the underlying or slight changes in the critical terms have resulted in a failure). In addition, certain macroeconomic events within a hedge period may cause an unusual change in the effectiveness for a short period of time. In both cases, ineffectiveness recorded through earnings results from these unusual events, which may be due to the macroeconomic environment or statistical flaws. By requiring a reassessment of effectiveness only upon the occurrence of circumstances that suggest that the hedging relationship may no longer be “reasonably effective,” it is unlikely that these unusual events, which are not representative of the business intent and risk management objectives, would result in a discontinuance of a hedging relationship. In addition, if the IASB were to limit the requirement for reassessment to circumstances where a critical contractual term of either the hedging instrument or the hedged item is modified, we believe that the only circumstances that would result in a discontinuance would be due to a change in the terms of the hedging relationship rather than due to these unusual, non-economic events.

While the Proposed Standard indicates that more qualitative testing may be used for assessing effectiveness, paragraph B34 appears to indicate that qualitative testing should be limited to those situations where the critical terms of the hedging relationship match. For most valid hedging relationships this will not be the case. Thus, based on our understanding of the proposal, most hedging relationships would continue to use quantitative testing to assess effectiveness. It is not clear to us how we would evaluate the quantitative results under the Proposed Standard’s qualitative framework. For example, would there be a presumption that ineffectiveness is the result of bias or sub-optimal hedging? Quantitative testing is operationally challenging and costly. As such, we do not support a model that requires significant use of quantitative testing or ongoing effectiveness testing. Moreover, if the IASB retains the “other than accidental” offsetting criterion, we do not understand what scenarios could occur after inception whereby this criterion would no longer be met unless the critical terms of either the hedged item or the hedging instrument are modified.

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In summary, we recommend that the IASB adopt the model proposed by the FASB whereby hedge effectiveness would be assessed under a threshold of “reasonably effective” with qualitative testing used in most assessments and with no ongoing effectiveness testing required unless any of the critical terms of the hedging relationship have been modified. We believe this will meet the IASB’s objective of aligning risk management strategies with hedge accounting, will greatly simplify hedge accounting and will resolve many of the current practice issues associated with hedge accounting. As hedge effectiveness is an area within hedge accounting where convergence is essential, agreement between the Boards in this area will be a significant step in the right direction.

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?*
- (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?*

We believe that if a hedging relationship fails to meet the objective of the hedge effectiveness assessment or could be at risk of failing in a future period, a company should be allowed to rebalance the hedging relationship provided the objective for the hedging relationship remains the same. This simplification would prevent the “death penalty” concept as companies would be able to proactively rebalance their relationships as the environment changes, rather than suffering a retrospective charge. However, we do not believe that such rebalancing should be required. Rather, a company should have the option to discontinue the hedge relationship and record the resulting ineffectiveness.

It is our understanding that the guidance as proposed permits a company to rebalance its portfolio at any time, if it considers such rebalancing necessary to comply with the risk management strategy. However we are concerned that the requirement to rebalance “upon failure or in anticipation of a failure of the hedge effectiveness” may be more narrowly interpreted such that companies will be required to provide evidence for rebalancing. As discussed in our covering letter above and further in our response to Question 8, there are times when a hedging relationship requires rebalancing to more appropriately manage the hedging relationship based on changing risk dynamics. Thus, more clearly permitting companies to rebalance in these circumstances would, in our view, more fully meet the stated objective of aligning hedge accounting with risk management objectives than could be interpreted under the current proposal.

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?*

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We strongly disagree with the proposed prohibition on voluntary dedesignation of hedge accounting relationships which we believe would unnecessarily restrict the use of many valid hedge programs.

As discussed in our covering letter above, we disagree with the view that voluntary dedesignation should not be permitted, which appears to be based on a presumption that the economics of the hedging relationship will not change after inception. In some cases, the economics do change. As an example, changes in prepayment speeds related to MBS will impact the economics of the hedged item and therefore the hedging relationship. As these assumptions change, the current hedging instrument may no longer be ideal, leading to dedesignation of the current hedging instrument and designation of a new hedging instrument (or redesignation of a portion of the current hedging instrument).

To illustrate why we believe that dedesignation and redesignation should continue to be permitted, consider a company that in its first year has one hedging relationship with a single hedged item, “Item A” (a MBS) being hedged by a single interest rate swap “Derivative 1”. In the second year, due to quicker than expected prepayments, Derivative 1 is no longer the ideal hedging instrument for Item A. However, the company has purchased a new MBS (Item B) for which Derivative 1 is the ideal hedging instrument. Under current guidance, the company would dedesignate Derivative 1 from Item A and redesignate it to Item B. Then, the company would enter into a new interest rate swap (Derivative 2) as the ideal hedging instrument for Item A. Under the proposal, this would not be permitted. The company would either need to obtain a second derivative that is ideal for Item B and suffer the ineffectiveness that would result in the Item A – Derivative 1 hedging relationship, or incur termination costs to change the Item A – Derivative 1 hedging relationship. We fail to see any justification for requiring entities to incur additional costs to manage their hedge relationships prudently.

In addition to the alternative approach described in our covering letter above and in our response to Question 7 whereby rebalancing would be permitted at any time, we believe enhanced disclosures about how and why companies use hedging strategies that require frequent dedesignation and redesignation would better address the Board’s and users’ concerns rather than mandating a costly and burdensome prohibition on hedge accounting for these strategies.

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?*

While we do not believe there are significant issues with the current approach to fair value hedging, we do not object to the proposal of recognizing fair value hedges within other comprehensive income (OCI) similar to cash flow hedges.

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We do not 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. For institutions that apply hedge accounting to a wide range of instruments, this would substantially increase the number of line items in the statement of financial position. Furthermore, many of the additional line items are likely to be relatively small balances in the context of the overall statement of financial position. Thus, we believe that the proposed presentation of the fair value changes to the hedged item attributable to the hedged risk would obfuscate the statement of financial position, reducing both the clarity and usefulness of the information provided.

Instead, we believe that the gain or loss on hedged items attributable to the hedged risk should continue to be recorded as an adjustment to the carrying value of the hedged item in accordance with existing requirements under both IFRS and US GAAP. We believe that this presentation would be easiest to understand. We also support disclosure of further disaggregation of the fair value movements on the hedged items attributable to the hedged risks in the notes to the financial statements.

If, however, the Board retains its proposal for the separate presentation of the gains or losses on hedged items attributable to the hedged risks on the statement of financial position, we would support the use of a linked presentation model as we believe that gross presentation, such as that proposed by the Board, will be misleading to users of financial statements. Specifically, we believe that linking the basis adjustments with the relevant hedged assets or liabilities would help users to better understand the impact of hedge accounting. By separating the basis adjustment from its related asset or liability, the impact of hedge accounting could be lost, particularly if the basis adjustment is negative and would otherwise have to be reported on the opposite side of the balance sheet. In addition, as the Board recognizes in paragraph BC125, without linked presentation, a company's risk exposure may appear higher than it truly is, leading analysts, regulators and other users of financial statements to believe that the company is riskier and more leveraged than it actually is.

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 (e.g., 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 (i.e. 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?*

We generally support the IASB's proposal which would allow a company to separate the time value of an option and designate only the intrinsic value element as the hedging instrument. We also agree with the proposal that the time-period-related time value determined at the time of designation of the hedging relationship should be recorded in OCI and transferred into earnings on a rational basis. However, we believe that the Board should clarify the treatment of time value related to existing derivatives that are newly designated in a hedging relationship. Specifically, if an existing derivative has an aligned time

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value that is other than zero and such value has been recorded as either a derivative asset or liability with an offset to earnings during the periods prior to hedge designation, should the aligned time value be moved into OCI?

In addition, we believe the IASB should amend its proposals with regard to the exclusion of time value to cover the initial value of other instruments. In certain cases, a swap, future or forward may have a value other than zero at the time the hedging relationship is designated (e.g., where a pre-existing interest rate swap is designated as a hedge). In these circumstances, we believe that this initial value should be similarly excluded from the hedge relationship.

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?

We generally agree with the criteria for the eligibility of groups of items. However, we are unable to comment fully on this aspect of the Proposed Standard until the Board has finalized its proposals for hedges of open portfolios (macro-hedging), given the importance of this form of hedging to our businesses.

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?*

We agree that “clear disclosure objectives allow an entity to apply its judgment when it provides information that is useful and relevant to users of financial statements”. However, we do not believe that the proposed disclosure requirements achieve this objective nor do they “establish a more objective-based approach to hedge accounting”. We are concerned that the proposed requirements are too prescriptive in nature and may result in information that is potentially burdensome to prepare and could be difficult for users to understand. Instead, to provide relevant information that enhances the transparency of an entity’s hedging activities, we recommend that the disclosure requirements be more objective-based. In our view, an entity should be required to disclose quantitative information to enable users to evaluate the types of risk exposures being managed and the effect of the hedging strategy on such risk exposure. In addition, we recommend that this information be provided only for a company’s significant hedging programs, as opposed to each category of risk.

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?*

As indicated in our response to Question 4, we believe that hedging credit risk is very important to financial institutions and should be permissible within the hedge accounting guidance. Such hedging

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would be consistent with the principle established for the hedging of risk components and the Board's overall objective of aligning hedge accounting with risk management. We therefore reiterate our view that the Board should avoid any language that explicitly or implicitly prohibits the ability to hedge any particular risk components and recommend that the principle of "separately identifiable and reliably measurable" should be left to the interpretation of the reporting entity.

However, if the Board persists with its proposed prohibition of hedging credit risk on the same basis as for other hedged risks, we believe that it should further develop Alternative 3 in paragraph BC226 of the Proposed Standard.

Question 16

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

Yes. We support a prospective transition for these proposed amendments.