

BMW Group

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Date

Subject

9 March 2011

IASB Exposure Draft ED/2010/13 'Hedge Accounting' - Comment Letter BMW Group

Dear Sir David,

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The BMW Group is one of the most successful manufacturers of automobiles and motorcycles in the world with its BMW, MINI and Rolls-Royce brands. As a global company, the BMW Group operates 24 production facilities in 13 countries and has a global sales network in more than 140 countries. In the financial year 2009 we achieved a global sales volume of approximately 1.29 million automobiles and over 87,000 motorcycles. Revenues totalled Euro 50.68 billion. At 31 December 2009, the company employed a global workforce of approximately 96,000 associates.

The BMW Group is listed in the German Stock Index (DAX 30) as well as in EuroStoxx50 (Europe's leading Blue-chip index for the Eurozone) and prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

We are pleased to respond to the International Accounting Standards Board's (IASB) Exposure Draft (ED) on Hedge Accounting. Instead of answering all questions addressed by the Board, we focus on areas where we believe modifications on the proposals in the ED should be made in order to provide more useful hedge accounting information and reduce inconsistencies and weaknesses in the existing hedge accounting model.



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Overall, we welcome the improvement on hedge accounting suggested in the ED. In addition we appreciate the Board is continuing its discussion of the portfolio hedge accounting model. We support especially the proposal to designate risk components as hedged items irrespective of whether the item that includes the risk component is a financial or non-financial item. From our point of view the designation of a risk component which is separately identifiable and reliably measurable reflects the risk management policy better than the current principle in IAS 39.

The areas we want to focus on are the following:

- Objective of hedge accounting (Q1):

The principles on hedge accounting in IAS 39 are not in line with the objectives of the hedging activities based on company's risk management policy. Therefore we generally agree with the proposed objective to represent the effect of an entity's risk management activities.

However, we believe there are some aspects that should be considered in focusing on the risk management policy. On the one hand the purpose of hedge accounting is to avoid accounting mismatches. Emphasising the alignment of hedge accounting and risk management policy can be opposed to avoiding accounting mismatches. On the other hand in consideration of internal hedging instruments or hedged items the alignment of hedge accounting and risk management policy won't be achieved by the ED. Coming from the Group's risk management perspective, hedging activities are to some extent based on an aggregated risk position of all external and internal transactions. Since internal transactions between consolidated subsidiaries won't qualify as hedging instruments or hedged items hedge accounting and risk management policy divergence. This difference seems reasonable in the light of the IAS 27 principles. However, we believe the ED should include clear guidance when internal transactions qualify for hedge accounting and the Board should consider how to deal with that mismatch in ED's objective to align hedge accounting and risk management policy.



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- Qualifying criteria for hedge accounting (Q6):

We fully agree with the Board's proposal to assess hedge effectiveness objective-based instead of a 80-125 per cent "bright line". The proposed hedge effectiveness requirements are (see para.19 (c)):

- '* meets the objective of the hedge effectiveness assessment; and
- * is expected to achieve other than accidental offsetting.'

Based on our understanding the hedge effectiveness can be assessed using quantitative methods or by qualitative criteria. The ED neither specifies a method for a quantitative assessment nor delivers more details on a qualitative assessment. However, based on our experience on assessing hedge effectiveness it would be very helpful to have a clear instruction by the Board which methods / criteria are applicable for testing hedge effectiveness. Therefore, we would encourage the Board to establish more specific indicators / guidance for the quantitative and qualitative hedge effectiveness assessment.

Furthermore we assume the 'accidental offsetting' is based on a particular point, but we are not sure, what are the main characteristics of an 'accidental offsetting'. As a consequence, we believe the Board should concretise when an offsetting is seen as accidentally.

- Accounting on rebalancing of hedging relationships (Q7):

Generally we support the new principles on rebalancing of an existing hedging relationship. We believe that hedging relationships which ceases to meet the objectives of the hedge effectiveness assessment but are still in line with the risk management objective should be further accounted in such a way.

However, since this is a new concept on hedge accounting the Board should consider including examples on rebalancing of hedging relationships to illustrate these procedure.

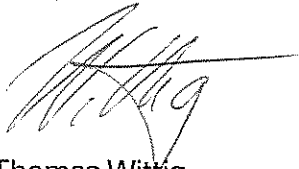


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Furthermore, we do not believe the users of the financial statement will understand the effect of rebalancing hedging relationships and changes to the hedge ratio without any disclosures on that. Therefore we recommend the Board to add disclosures on rebalancing.

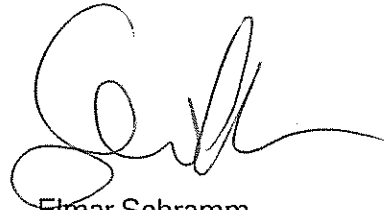
If you would like to discuss our comments further, please do not hesitate to contact us.

Sincerely,



Dr. Thomas Wittig

Senior Vice President
Group Reporting



Elmar Schramm

Vice President
Financial Statements,
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