



Zurich, March 9, 2011

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

Comments in response to  
***Hedge Accounting Exposure Draft ED 2010/13***  
International Accounting Standards Board  
December 2010

ABB ([www.abb.com](http://www.abb.com)) is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. The ABB Group of companies operates in around 100 countries and employs about 124,000 people.

Dear Sirs,

Thank you very much for providing us the opportunity to comment on the exposure draft mentioned above.

Please find attached our responses which cover the sections are more relevant to our hedge accounting operations.

Yours sincerely,

ABB Asea Brown Boveri Ltd

  
Clemens Sager

Group Accounting Policy Manager

  
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Attachment

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**Designation of risk components as hedged items**  
**(Paragraph 18)**

*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?

**ABB sees it as a positive development that the exposure draft proposes to allow that a particular risk component is available for designation as a hedged item, as long as that hedged component can be clearly identified and reliably measured. This may allow companies to identify and hedge more accurately (if hedging instruments do exist) separate risk components of one single contract or exposure should this be identified as a requirement.**

**Hedge effectiveness requirements to qualify for hedge accounting**  
**(Paragraph 19)**

*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?

**It is the opinion of ABB that not having to perform an assessment and effectiveness test based on the 80-125 percent range is a positive change. In fact a company could be satisfied in achieving 70 percent hedge effectiveness as part of its risk management policy. While this provides in principle more flexibility in matching hedging instruments to the company's risk management policies and processes, it can potentially require as well adaptations to the existing procedures and system platform.**

**It might however be a challenge for companies to re-define their risk management approach to better reflect the different levels of risk, in case of need, in the organization.**

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**Rebalancing of hedging relationship**  
**(Paragraph 23)**

**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?

The fact that an effectiveness testing in a prescribed range may not be required any longer justifies that a robust effectiveness assessment process should exist. We note that the guidance is given in relation to a company's risk management policies so it might be possible that companies may apply different effectiveness assessment processes depending on the type and level of risk being managed.

In order to determine the appropriate effectiveness test to be applied, it would be important to better define the concept of *critical terms* and *closely aligned*.

In general we believe that rebalancing could require the adoption of rather complex procedures and assessments that would need to be documented and it may result in additional operational efforts. While it is conceivable that a change in policy requiring a different hedge ratio could constitute a reason for rebalancing, a change in the relationship between the hedged item and the derivative may not cause the same action because such change in relationship could be of temporary nature and difficult to assess on a prospective basis. In summary, we believe that companies should be allowed flexibility to assess whether to rebalance hedging relationship as long as the decision is consistent with its risk management policy and objectives.

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**Discontinuing hedge accounting**  
**(Paragraph 24)**

**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?

**It should be left to a company to decide whether an entity should discontinue hedge accounting based on its risk management policy, also considering that the existing hedges could still provide a good economic hedge for the company even though they do not fall under hedge accounting.**

**ABB agrees that a specific hedging transaction should be de-designated from hedge accounting only when the hedging relationship and effectiveness clearly fails to meet the defined criteria.**

**On the other hand, if a transaction previously de-designated (provided it failed the effectiveness test) should again meet the effectiveness criteria in the subsequent phase, it should be possible to designate it again.**

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**Accounting for fair value hedges**  
**(Paragraph 26-28)**

*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?

**ABB generally agrees with the change of accounting for fair value hedges through OCI (as long as a fair value hedge is effective the change in fair value of the hedged item and hedging instrument always offsets in OCI). Using the same model will result in hedge ineffectiveness bookings to profit or loss for cash flow and fair value hedging. We do not see the value added to the proposed separate line item in the financial statements and recommend presenting the details in the notes section**

**In terms of the linked presentation for the financial asset or liability and hedging instrument for fair value hedges we agree not to apply it as it would not provide enough details of the risk profile of the asset and liabilities being hedged.**

**Presentation**  
**(Paragraph 37)**

*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?

**ABB is not affected by this change, however we question the completeness (for those items hedged on a gross basis the adjustment of the underlying item continues to be stated in sales or cost of sales), the transparency and informative value of the proposed separate line in the profit and loss statements. Each company should be allowed to determine what level of details and transparency should be included in the presentation.**

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**Disclosures**  
**(Paragraph 40-52)**

*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?

**ABB is concerned about the significant changes outlined in the exposure draft. We believe there is a danger that this may require that company sensitive data would need to be disclosed in the financial statements and this is not desirable.**

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