

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

9 March 2011

Dear Sirs,

Comment letter on Exposure Draft – ED/2010/13 “Hedge Accounting”

Thank you for the opportunity to comment on the above exposure draft.

We support the overall direction of the proposals and are pleased to note that the proposals generally better align hedge accounting with the entity's risk management activities.

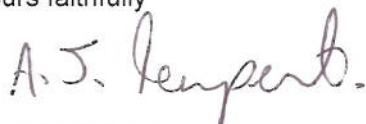
We are concerned that the proposals for hedges of a group of items and for net position hedges produce results that we consider to lack logic, and risk creating a lack of comparability between the financial statements of similar entities.

The proposals for net position hedging are, we consider, likely to be of limited appeal due to the prohibition on grossing up of the gains and losses on the net position.

Our responses to the questions posed by the board are attached as an appendix to this letter. We do not presently engage in fair value hedging, and so have not provided a response to questions 5(b), 9 and 14. We do not use credit derivatives to manage credit risk and so have not provided a response to question 15.

Should you require clarification of any of the points raised either in this letter or the appendix, please contact me.

Yours faithfully



Andrew Tempest
Group Reporting Manager

Background

easyJet operates a fleet of around 200 passenger-carrying aircraft on short- and medium-haul routes mainly in Europe with some routes to the Middle East and North Africa.

We use forward contracts to hedge:

- *currency risk relating to revenues denominated in Euros and Swiss francs,*
- *currency risk relating to US dollar expenditure on fuel and aircraft leasing, and*
- *price risk relating to fuel purchases*

At 30 September 2010 we had hedged between 60% and 70% of our estimated exposures in the twelve months to 30 September 2011 and lower percentages in the twelve months to 30 September 2012. It is not our current policy to hedge further than two years out.

We have, in the past, used collars and (to a limited extent) call options as hedging instruments, but do not presently do so.

Appendix

Question 1

Do you agree with the proposed objective of hedge accounting?

Yes

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?

Yes, although where a natural hedge is present (for example EUR monetary assets naturally hedged by EUR monetary liabilities) we think it likely that many entities would not formally designate a hedging relationship.

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?

Yes. We welcome the removal of the arbitrary rules in IAS39. Hedge accounting principles should not prevent hedge accounting from being obtained where there is an overall commercial logic to the combination of hedged items and hedging instruments.

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?

Yes, we consider that this is a sensible approach. We note that both of the examples given in paragraph B15 relate to contracts for the supply and purchase of oil or gas products, and think it would be helpful if the board were to develop a further example from a different industry.

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?

Yes – provided the arrangements have commercial substance there is no reason not to permit this.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting?

Yes, in particular we welcome the use of qualitative assessments in suitable situations.

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?

Yes, in principle. We note that assessing whether changes in fair value are “fluctuations around the hedge ratio that remains valid” is a subjective judgment. The exercise of this judgment should be left to management of entities in consultation with advisors and auditors.

(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?

We agree that an entity may, but should not be required to, proactively rebalance the hedge relationship.

While we understand at a high level what the board means by “rebalancing” this is a new concept and recommend that the board provide some illustrative examples to assist fuller understanding.

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)?*
- (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?*

On balance, we think that voluntary de-designation should not be permitted, if only as an anti-avoidance measure to prevent entities from cherry-picking to produce a desired financial outcome.

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)?*
- (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?*
- (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)?*

We agree that the proposals are sensible, and note that the board has chosen not to explain what it means by “transferred ... to profit or loss on a rational basis”. We do not consider it necessary to further define “rational basis” but note that consistency of treatment over time is an essential part of a rational approach, save for where a change in fact pattern renders consistency inappropriate.

We do not think that the requirement to use “aligned time value” will be easy to implement. Very few entities will have the skills in-house to calculate aligned time value. While such services will likely be offered by third parties, we consider that the use of such highly theoretical valuations may not result in useful financial information.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item?

We agree with the first two criteria, namely that all items in the group are individually eligible hedged items and that the items are managed on a group basis for risk management purposes. If these criteria were not in place the overall objective of hedge accounting would not be met.

We disagree with the prohibition on offsetting risk positions that affect profit or loss in different periods. We note and understand the board's logic in reaching this conclusion expressed in paragraphs BC188-BC173. However we consider that this produces an illogical result.

It cannot be appropriate to be able to apply hedge accounting to a net position where all transactions occur within a “reporting period” but not where some of the transactions fall into

different reporting periods. To do so gives undue prominence to the reporting period (be it quarterly or half-yearly).

The concept of a reporting period is an accounting convenience that has no direct relevance to the day to day operations of the entity, including risk management. It is not logical that an entity reporting quarterly finds that its hedge accounting options are fewer than those available to an otherwise identical entity that reports half-yearly.

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 (e.g. 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?

We disagree, for the following reasons:

1. The net number is meaningless in the context of the income statement. Where the entity is reporting the income statement by function, should the gain or loss on hedging come before or after gross profit? Where the entity is reporting the income statement by nature, and the hedged items are in several revenue and cost lines, how does presenting the hedge gain on one line provide useful financial information
2. Where several cost lines contain hedged items, the exposure draft requires the apportionment of the hedging gain or loss into those line items. To require one treatment for "gross" hedges and another for "net" hedges is not logical. We are not persuaded by the view expressed at BC175 that requiring (it should not be a matter of "allowing") gross-up is inconsistent with general accounting principles
3. As a general principle we do not favour bringing additional "minimum disclosure" line items into the primary statements save where there is a clear benefit for users from doing so.

Question 13

(a) Do you agree with the proposed disclosure requirements?

The proposed disclosure requirements are detailed and comprehensive. We consider some of the language over-prescriptive, notably paragraph 41. Financial statements should be laid out in a logical manner that allows users to locate the information they require, but we consider the proposals go too far in prescribing how that should be achieved for hedge accounting.

The logical end point of applying this approach consistently would be a body of prescriptive rules specifying exactly how financial statements should be laid out. We think this would be highly undesirable for both preparers and users.

Some entities will need to disclose significantly more information about their hedging activities than at present and may consider this to be commercially sensitive. We would not support a general opt-out from disclosure on the grounds of commercial sensitivity. However the board needs to balance the needs of preparers and users in determining disclosure requirements. If the requirements go too far, preparers will tend to provide disclosure that is technically compliant while being bland and uninformative.

We think that the board should consider carefully the interaction between disclosure requirements in IFRS9 and disclosure requirements in IFRS7. Having disclosure requirements relating to financial instruments in two standards raises the risk of unintentional conflicts in wording. We think that it would be better to have all disclosure requirements in IFRS7.

We also note the tendency for exposure drafts to introduce additional disclosure requirements, making financial statements more complex and potentially confusing. We

believe that the board should allocate some time to determining areas where it might be possible to reduce disclosure to ensure an appropriate balance between disclosure and comprehensibility.

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

We have no suggested additional disclosures.

Question 16

Do you agree with the proposed transition requirements?

We agree that the proposals should be applied prospectively to all hedging relationships extant at the proposed transition date (in our case this will be 1 October 2013). There will need to be suitable transitional provisions to ensure that arrangements entered into before the transition date continue to qualify for hedge accounting.