

March 11, 2011

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
First Floor  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

**Re: IASB Exposure Draft on *Hedge Accounting***

Dear Sir David,

The Financial Instruments Reporting and Convergence Alliance (“FIRCA”) is a coalition of nine trade organizations – the American Council of Life Insurers, Commercial Real Estate Finance Council, Council of Federal Home Loan Banks, Group of North American Insurance Enterprises, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable and The U.S. Chamber of Commerce – representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

FIRCA supports the adoption of joint International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) high quality robust accounting standards that are decision-useful, reliable, and relevant; present financial information in a manner that is reflective of the business operations of an entity; and transparently provide information and not drive economic activity. FIRCA appreciates the opportunity to comment on the IASB exposure draft *Hedge Accounting* (the “Exposure Draft”).

FIRCA supports the basic objectives of the Exposure Draft, which include establishing a single source of guidance for hedge accounting that would:

- (a) align hedge accounting more closely with risk management and hence result in more useful information,
- (b) establish a more objective-based approach to hedge accounting and

- (c) address inconsistencies and weaknesses in the existing hedge accounting model.

FIRCA is concerned that the Exposure Draft contains many principles that diverge from the FASB's proposed hedge accounting model. This is especially disappointing since the FASB's model was proposed in May 2010 and the IASB Exposure Draft offers little explanation of how this model is better than the FASB's. FIRCA has been consistent in requesting the IASB and the FASB work together to "do it once and do it right." FIRCA suggests that the IASB move toward the FASB's proposed hedging model instead of significantly diverging from that model.

While aligned with the basic objectives of the Exposure Draft, we are concerned about certain aspects, including guidance to determine hedge effectiveness. Although our members are not unanimous on this, the majority of FIRCA members support the FASB's hedge effectiveness criteria of "reasonably effective" and the FASB's proposed qualitative testing. FIRCA believes that such tests would remove much of existing practice difficulties and allow for more consistency in practice. FIRCA believes that the FASB's proposal would be more operational than the primarily quantitative testing inherent in the IASB's proposed hedging model. FIRCA's members would like additional information on IASB's concept, "other than accidental" effectiveness threshold, embodied in the Exposure Draft.

Consistent with the Exposure Draft, FIRCA believes that:

- An entire asset or liability, a portion of an asset or liability, a portfolio of homogeneous assets, a portion of homogeneous liabilities, or a specifically-identified risk inherent in an asset or liability should be eligible for hedge accounting.
- Hedging instruments may be de-designated and re-designated

However, FIRCA believes that de-designation and re-designation should be voluntary and not mandatory as suggested in the Exposure Draft. Further, FIRCA is puzzled that the Exposure Draft would prohibit a reporting entity from using hedge accounting treatment for credit derivatives. The Exposure Draft states the reason for this is that it is "operationally difficult (if not impossible) to isolate and measure the

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credit risk component of a financial item as a component that meets eligibility criteria for hedged items.” FIRCA notes that IASB’s exposure draft ED/2009/12, *Financial Instruments: Amortized Cost and Impairment* (Impairment ED) would require reporting entities to estimate the credit risk component (i.e. impairment) on all debt instruments on an expected loss basis. Thus, the Exposure Draft would appear to contradict the Impairment ED as well as the recent guidance issued in IFRS 9 for Financial Liabilities recorded at fair value where the impact of entity-own credit is recorded in OCI. FIRCA believes that if it is appropriate to measure impairment on an expected loss basis and to measure entity-own credit, then it is operationally possible to isolate and measure the credit risk component of a financial item hedged by a credit instrument. FIRCA is equally puzzled by the prohibition of using hedge accounting on any hedge of an instrument that contains prepayment risk. FIRCA points out that such risks can be effectively hedged.

In conclusion, we appreciate the opportunity to provide our thoughts on this Exposure Draft. FIRCA recognizes the significance of the IASB’s financial instruments project to revise the existing guidance. But, because of its significance, it is important that the project be done right and move in the direction of international accounting convergence, not further divergence.

Sincerely,

American Council of Life Insurers  
The Council of FHLBanks  
CRE Finance Council  
The Financial Services Roundtable  
Group of North American Insurance Enterprises  
Mortgage Bankers Association  
Property Casualty Insurers Association of America  
The Real Estate Roundtable  
The U.S. Chamber of Commerce