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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via "Open to Comment" page, www.iasb.org

Re: Exposure Draft "Hedge Accounting", dated December 2010

Dear Sir or Madam:

We are writing in response to your request for comments on the Exposure Draft "Hedge Accounting" dated December 2010.

ENMAX Corporation (ENMAX) is an energy distribution, supply and service company. We're a wholly owned subsidiary of The City of Calgary, headquartered in Calgary, Canada. ENMAX operates and competes in Alberta's restructured electricity industry where ENMAX and its predecessors have provided Albertans with safe and reliable electricity for more than 100 years. Our core operations include electricity generation, transmission and distribution and the sale of electricity, natural gas and renewable energy products to residential, commercial, institutional and industrial customers. The exposure draft is of particular interest to ENMAX as we have a significant hedging program which includes commodity, interest rate and foreign currency hedges as well as a well developed risk management process.

ENMAX supports the IASB initiative in publishing the Exposure Draft and its objective to better reflect in the financial statements the effect of an entity's risk management activities that use financial instruments to manage the risk exposures. However it is important to note that an entity's risk management strategies encompass a variety of different types or risks and it is not clear in the exposure draft which risks management activities are to be addressed.

In addition, although the exposure draft is trying to replace the rule-based hedge accounting requirements, to ensure consistency and increased comparability among companies on this complex subject, ENMAX believes that specific guidance and measures will be required. We do not believe the exposure draft is clear on how the proposals are to be applied and fear that financial statement preparers may revert back to the current "rules-based" guidance. Furthermore, we believe that given the lack of clarity on how to apply the proposals to specific situations (i.e. the hedging of non-financial items), the large audit firms will specify the qualitative and quantitative requirements which may not be consistent across firms or with the exposure draft's objective in reducing the complexity of hedge accounting.

Overall, we feel that this exposure draft is major milestone to reducing the complexity of hedge accounting and in meeting the G20's precedent and we are very supportive of the IASB's goal to develop a single set of high-quality global financial reporting standards. However, we are concerned that although this project was intended to be a joint project between the International and US Accounting Boards, the proposals released by both parties are significantly divergent. As such, we strongly encourage that the IASB and FASB work together to converge their proposals on this exposure draft and recommend not rushing to finalize the standard by June 30th. Given the significant number of comment letters received to date by both FASB and the IASB, we strongly encourage the IASB redeliberate and re-expose the proposals before finalizing the standard.

ENMAX appreciates the opportunity to be involved in this process. Our responses to each of the questions are included in the appendix attached to this letter. If you have any questions, please contact me at (403) 514-1649. Thank you again for the opportunity to provide comments on this exposure draft.

Sincerely,

Melanie Litoski, CA
VP, Financial Reporting

Appendix: ENMAX Corporation's responses to the questions raised in the Exposure Draft

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?

As noted in the exposure draft, the IASB's initiative to replace IAS 39 was that many users and preparers of financial statements describe hedge accounting today as complex and criticise it for not reflecting an entity's risk management activities or to what extent those activities are successful in meeting the entity's risk management objective. Accordingly, the objective of the exposure draft is to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss. We agree with this objective however note that trying to link an entity's risk management objectives with financial reporting is too broad of an objective and it is not clear in the exposure draft which risk management activities are to be addressed. We would recommend the exposure draft be limited only to risk management activities that use financial instruments to manage the exposure and not for all of an entity's risk management activities. We believe this objective will allow entities to better account for their true hedging activities and will improve the link between economic hedges and hedge accounting.

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? Why or why not? If not, what changes do you recommend and why?

Yes, we agree with the proposal as it is consistent with the exposure draft's objective of aligning the accounting treatment with an entity's risk management activities. For instance, allowing cash instruments classified as fair value through profit or loss to be considered a hedging instrument will better match an entity's true risk management process with accounting for the risks.

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? Why or why not? If not, what changes do you recommend and why?

Yes, we agree with the proposal as it is consistent with the exposure draft's objective of aligning the accounting treatment with an entity's risk management activities. For example, we believe that a transaction which includes commodity price and foreign currency risk; the aggregate exposure that is a combination of a derivative and an exposure should be eligible for designation as a hedged item.

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?

Yes, we agree with the proposal. The proposal will expand the scope and use of financial and non-financial instruments and meet the exposure drafts objective of aligning hedge accounting with an entity's risk management practices. This will allow entities to truly reflect their risk management activities by allowing hedge accounting treatment for components of non-financial items such as input components of supply contracts.

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?

Yes, ENMAX agrees that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item. This proposal will further align accounting with risk management strategies and will assist in minimizing hedge ineffectiveness. For example, hedging the first or last portion of a nominal amount (i.e. firm commitment) will likely strengthen the link between an entities's hedge and risk management activities. Accordingly, the proposal will produce more effective hedging relationships thereby minimizing ineffectiveness.

(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?
We have no comments on this proposal.

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?

Yes, ENMAX agrees with the hedge effectiveness requirements however we believe the exposure draft needs additional guidance on how to test and measure ineffectiveness. Accordingly, we believe that the exposure draft requires clarification and examples on the hedging of non-financial items as this is a new proposal, what is meant by a significant change in circumstance which will require an entity to rebalance its hedging relationship and when it is appropriate to re-balance. Also, some clarity around prospective effectiveness and measurement techniques would be extremely useful including whether it is acceptable or not for an entity to change its method of measurement after inception of the hedge. It is important for these items to be incorporated into the exposure draft to ensure consistency and comparability amongst companies.

We fully support the elimination of the 80-125% requirements under the current IAS 39 as it will allow entities to align better hedge accounting with their risk management strategies. In addition, we agree with the frequency of testing and the elimination of retrospective assessment. However, we do note that these changes are significant and will require companies to change their hedge documentation, modify systems and update procedures.

Accordingly, we would like to reiterate here that this area is very complex and without appropriate application guidance, there could be significant divergence in practice which will lead to lack of comparability.

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 hedge relationship remains the same? Why or why not? If not, what changes do you recommend and why?

We believe that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment, an entity should be permitted but not required to rebalance the hedge relationship provided the objective remains the same. Hedge accounting is optional; as such, we believe an entity should have the option to discontinue any hedging relationship and should not be required to rebalance. We believe that mandatory rebalancing is not reducing the complexity of hedge accounting, it will require companies to determine at what point the relationship fails to meet the objective. This determination will involve a significant amount of professional judgement and will differ amongst various entities thereby reducing overall comparability.

(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?

Yes, we believe that an entity should be able proactively rebalance a hedge relationship which is no longer expected to meet the risk management objective in the future. However, due to the uncertainty of future events, we believe this rebalancing should be optional and not mandatory.

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?

No, ENMAX does not agree with this proposal. Hedge accounting is an optional accounting treatment on inception of a hedge and we believe should be voluntary throughout the life of that hedge. There are many reasons an entity may choose to not apply hedge accounting or discontinue hedge accounting, including changes in the risk management strategy and burdensome administrative costs.

(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?

No, as noted in the response to question 8(a), hedge accounting is not mandatory and we believe that entities should be allowed to voluntarily discontinue hedge accounting on a prospective basis similar to the current requirements in IAS 39.

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 recognized 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?

ENMAX agrees with this proposal and believes that recording the effective portion of a fair value hedge in other comprehensive income will allow entities to better align their hedging strategies with the entity's risk management objective. In addition, the alignment of the hedge accounting treatment with that of cash-flow hedges will eliminate the current mismatch in accounting for hedges and enable users to better understand the hedge impacts on financial statements.

(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?

We do not believe that the gain or loss should be required to be presented as a separate line item in the statement of financial position. We do agree that this information is useful for financial statement users and should be disclosed in the notes to the financial statements with an option to present it separately on the face of the statement of financial position. This is consistent with IAS 1 which states "An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position" for a hedge.

(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?

Yes, we agree that linked presentation should not be allowed for fair value hedges as it will likely confuse users of the financial statements. We do however believe that linked presentation could provide some useful information about a particular relationship (i.e. firm commitments and foreign currency forward contracts), but to avoid unnecessary confusion, we agree with the basis of conclusions, and that the disclosures on hedging would be a better alternative to provide this information. This will allow users of financial statements to assess the relevance of the information for their own analysis and will not overburden the financial statements with overly complex information.

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?

ENMAX agrees with this proposal however would like the IASB to consider expanding the scope beyond initial measurement as in the case of "costless collars". Although these options have no cost on inception, the hedging instrument will have value as market factors change. For example, if an entity were to enter into a foreign exchange costless collar, as soon as the foreign currency changes, the option will have value and will hold value until the collar expires. We believe that the change in the fair value of the

option's time value should be deferred in OCI until the hedge transaction is realized and the proposal should not be limited to the time value component in the initial cost.

(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?

No comment, not applicable.

(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?

No comment, not applicable.

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?

Yes, ENMAX agrees that the requirements for qualifying hedge accounting for groups of items should be similar to individual hedged items since both approaches are similar in concept and are more aligned with the companies risk management activities than the current requirements in IAS 39. We believe the proposal will give more flexibility for companies to use groups of items as hedged items, for example, offsetting cash flows (for cash flow hedges) exposed to the hedged risk that affect profit and loss in their entirety in the same reporting period can be grouped together if they are managed together and can be individually designated.

We strongly support the proposal to apply hedge accounting to net positions, as we believe this will further improve the overall objective of the exposure draft and will better align hedging activities with an entity's risk management practices.

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 recognized in a profit or loss should be presented in a separate line from those affected by the hedged item? Why or why not? If not, what changes do you recommend and why?

ENMAX does not believe that presenting this information on a separate line of the income statement will be useful for financial statement users. Under the requirements of IAS 1, if the amounts are significant, separate note disclosure may be required.

Question 13:

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

No, ENMAX does not agree that the new disclosure requirements will be appropriate for all entities. We believe that financial statement users are already overloaded with information related to derivatives and hedging strategies and this additional information will provide little useful information to most financial statement users who are not risk management experts. Accordingly, we recommend removing paragraphs 49 to 51 which require the entity to disclose in a tabular format detailed information specific to each of the entity's hedging instruments, hedged item and risk for each type of hedge. We do not believe the requirements of a tabular format will be effective in all situations and other ways of communication may be more effective and easier to understand. We would also question the decision usefulness of this information.

In addition, disclosing specifics of an entity's risk management strategy, in particular, disclosing the extent of risk exposures which an entity manages will provide competitors with access to sensitive company information. A balance needs to be maintained between providing decision useful information to investors and competitors.

Furthermore, we believe it is very important to ensure the ED aligns with the current requirements of IFRS 7, this will promote overall consistency amongst the various phases of the Financial Instruments project and ensure the disclosure requirements as a whole provide information that will enable users to evaluate the nature and extent of risks arising from financial instruments, hedging activities and risk management activities.

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

ENMAX does not have any additional disclosures to recommend however, we would like to reiterate here that the disclosures should provide decision useful information for common/average/financial literate users and that it is important not to overload the financial statements with complex derivative and hedge accounting information which will be difficult to interpret by anyone but a hedging specialist.

Question 14:

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

Yes, we agree with this proposal in that an entity with a fair value based risk management strategy should be allowed to account for its non-financial contracts as derivatives and not as executory contracts. This new requirement will better align the entity's accounting with its risk management strategy. However we believe that this should be an optional and not mandatory election which should be taken on inception of the contract. If taken, the contract should be accounted for as a derivative throughout the duration of the contract and the expected purchase sale or usage requirements exemption should be not available.

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?

Yes, ENMAX agrees that the three alternative accounting treatments, as proposed in the exposure draft, to account for hedges of credit risk using credit derivatives only adds unnecessary complexity in accounting for financial items.

(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?

We do not believe that any of the three alternatives mentioned above should be considered.

Question 16:

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

ENMAX agrees with the proposed prospective application but we do not agree with the transitional timing. We recommend that all three phases of changes to the financial instruments standards, IFRS 9, be implemented at the same time as the sections are interconnected. We do not believe the standard should be fully transitioned and required under IFRS until all the stages of the project are completed, including macro hedging and offsetting, and furthermore aligned with the FASB financial instrument standard. Accordingly, with the significance of the proposed changes for many entities (including documentation, process and systems changes) and the connection with other significant and related changes such as leases and revenue recognition, ENMAX recommends that these changes be effective January 1, 2015.