



9 March 2011

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
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Dear Sir David,

Exposure Draft ED/2010/13 – Hedge Accounting

We are pleased to provide our comments in the relation to the Exposure Draft on Hedge Accounting.

Overall, we support the proposed standard for hedge accounting as it provides a more flexible and simplified approach, aligning hedge accounting more closely with the entity's risk management activities. Furthermore, the proposed principle based model enables reporting to reflect the economic reality of the transaction as opposed to an accounting outcome. However, there are some aspects of the exposure draft that we have specific issues to raise and provide further details on these matters below.

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?

While we agree with the proposed requirements for hedge effectiveness, we believe additional guidance should be provided in the final standard for determining when a hedge relationship is producing a bias result. The proposals in the exposure draft do not indicate how to assess bias in a hedge relationship and as such could result in inconsistent methods adopted by entities. We believe the final standard should have more guidance on when and what quantitative analysis techniques should be used to demonstrate the hedging relationship will produce an unbiased result and minimise expected hedge ineffectiveness.

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?

- (a) We believe more guidance and clarification is required on when an entity is required to rebalance where there is ineffectiveness. We believe if the risk management strategy has not changed then ineffectiveness should simply be accounted for in the profit and loss, consistent with the requirements of the proposed standard, without the need for any rebalancing. Examples on the accounting for rebalancing should also be provided in an Appendix to the final standard.

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?**

- (a) We do not agree that for a fair value hedge the gain or loss on both the hedging instrument and the hedged item should be recognised in other comprehensive income, with the ineffective portion transferred to profit or loss. Including this information on the face of the statement of other comprehensive income will expand this statement unnecessarily and confuse users' understanding with the added complexity. We understand that the proposed changes are purely presentational and will not change the net accounting impacts whereby ineffectiveness will continue to be reported in the profit and loss. However, we believe it is more appropriate for information on the gains and losses on the hedged item and hedging instrument to be included in a note disclosure, consistent with current requirements.
- (b) We do not agree that a separate line item should be shown on the face of the statement of financial position for re-measurement gains or losses on the hedged item as we do not believe this will add value to users. We believe this presentation format will expand the face of the statement of financial position unnecessarily which will confuse users in understanding an entity's financial position. Furthermore, this presentation format is inconsistent with other re-measurement accounting standard requirements i.e. revaluations on plant and equipment that require the fair value movements to be included and presented as part of the item being revalued (i.e. one line item). We believe disclosing information on gains and losses on the hedged item in a note disclosure is a better alternative. Further, these note disclosures should group hedged items with the related hedging instruments which will provide more value to users.

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?

We support the accounting treatment that where an entity elects to hedge a group of items or a net position the hedge result should be reported in a separate line item in the profit and loss. Where an entity adopts an individual hedging approach, the hedge result should be reported and netted against the underlying

hedged item. We believe more guidance is needed in the final standard to clarify what constitutes an individual hedging approach – for example, hedging foreign currency purchases against one specific supplier should qualify as an individual hedging approach.

Question 16

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

We do not agree with the restriction for early adoption where we are required to early adopt all of the phases for IFRS 9 at the same time. Given there are other phases in the financial instrument project which have not yet been finalised, we believe we should have the ability to early adopt those phases that have been finalised, as and when they are finalised, and not delay implementation. We recommend that this be allowed in the final standard.

We also recommend that on transition there is a concession which will enable entities to retrospectively designate hedges in accordance with the final standard if the risk management objective for a hedge has been in place previously. Any accounting adjustments to adjust opening balances on transition should be able to be made through retained earnings.

Please contact me on +61 3 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Anderson'.

David Anderson
Director Corporate Accounting