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IFRS Foundation
www.ifrs.org

Hedge Accounting, Basis for Conclusions and Illustrative Examples
Exposure Draft ED/2010/13 December 2010

Dear IFRS Foundation:

Taking a market position in anticipation of a transaction is not a hedge. It is a naked derivative, a one-sided speculative bet.

It may become a hedge if the anticipated transaction takes place.

Cash flow hedge accounting results in **deceptive** financial reporting and should never be part of an accounting standard.

Paragraph BC 131 of the Exposure Draft states in part as follows:

For cash flow hedges, recognising in profit or loss gains and losses arising on the hedged item in excess of the gains and losses on the hedging instrument is problematic because many hedged items of cash flow hedges are highly probable forecast transactions. Those hedged items do not yet exist although they are expected to occur in the future. Hence, recognising gains and losses on these items in excess of the gains and losses on the hedging instrument is tantamount to recognising gains and losses on items that do not yet exist (instead of a deferral of the gain or loss on the hedging instrument). The Board noted that this would be conceptually questionable as well as a counter-intuitive outcome.

Paragraph BC 140 of ED/2010/13 states in part:

The Board considered that one type of **distortion** of other comprehensive income was inevitable (ie either in the period of the basis adjustment or over the total period) and hence there was a trade-off. The Board concluded that, on balance, the effect of a reclassification adjustment in the period of the basis adjustment would be **more misleading than** the effect on the total period of not using a reclassification adjustment. (Bolded underlines added.)



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