

International Accounting Standards Board  
30, Cannon Street  
London  
United Kingdom

March 08, 2010

**Subject: Comments on Exposure Draft – Hedge Accounting**

Dear Sir / Madam,

Thank you for giving us an opportunity to comment on the subject Exposure Draft (ED).

First a few words about us. We are a consulting entity operating in India. We offer a broad range of advisory services in the Finance, Accounting and Corporate Governance domains to incorporated companies. We also provide support to Company Boards in the role of an Independent Director.

We compliment the Board for carrying out a comprehensive review of the hedge accounting requirements under IAS 39 and for proposing a fresh set of standards that aim to be a) more principle based than hitherto and b) extend the standard to many more hedging situations.

We are broadly in agreement with most of the paragraphs in this ED and, therefore, decline from giving replies to each and every question. We, nevertheless, do have some concerns, comments and suggestions on the general approach of the ED. These are listed below.

**1. Objective:** We think the objective to represent the “effect of an entity’s risk management activities” is too wide. There could be some instruments of risk management that would not be covered by this standard and, to that extent, this objective would be inappropriate. We think the objective should be to “represent the financial effect of financial instruments used to hedge risk to profits”.

**2. Hedging Instruments:**

a) Exclusion of contracts with group entities, in certain circumstances could be unfair. For, instance, a manufacturer may have in its group a bank that provides hedging products to cover currency risks. It is but natural that the former would buy such a product from its own group bank. To exclude such a contract would be too restrictive. We would suggest that hedge accounting should permit transactions between entities in the same group in the individual or separate financial statements of those entities but not in the consolidated financial statements of the group

b) We would discourage number based guidelines such as 50% in paragraph 9 for apportionment of hedging instrument in a hedging relationship. Numerical guidelines tend to become an inflexible rule with some auditors leading to differences in the financial statements of different entities. From a commercial viewpoint, it might be more efficient to buy an umbrella hedging instrument and allocate it to numerous small hedged items instead of buying many small hedging instruments.

**3. Qualifying Criteria for Hedge Accounting:** One criterion stated in the ED states that “at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge”. It is not clear whether in a hedging relationship the hedging instrument should necessary come into existence after the hedged

item. Or could a reverse situation also subsist. For instance, an entity may contract a foreign currency loan, initially, because of lower interest costs. Subsequently, it enters into a long term sale contract wherein the revenues would be in the same foreign currency as was the loan already on the books. Normally it hedges probable foreign currency revenues by purchasing a hedge. In this case would this entity be permitted to designate the loan (non derivative financial liability) as an hedging instrument?

These could be another situation where there exists a hedged item and an instrument that could well qualify as a hedging instrument. But the entity does not document the hedging relationship thereby opting out of this standard. Is that permitted?

Can this entity, in a subsequent reporting period, create the documentation to meet the qualifying criteria and opt for hedge accounting for this very same pair?

We would like the Board to clarify all the above three issues as we often across such situations.

**4. Accounting for Hedges:** The rebalancing requirement should be made more understandable. Further, the wording of the ED ('shall rebalance') somewhat interferes with the managements' prerogative to either continue with the qualifying hedging relationship or let it lapse.

**5. Disclosures:** The complex disclosure requirements would substantially increase compliance cost. Moreover, some of these overlap the requirements of "Management Commentary". This is certainly an area of concern and we would urge the board to reconsider these.

**6. Conclusion:** We think the intention behind the ED is commendable. However, the structure of the ED is too overarching and a little beyond the remit of an Accounting Standard.

Yours sincerely

Balan Wasudeo

Consulting CFO