

Santiago; Chile; March 09, 2011.

IFRS Foundation
30 Cannon Street, First Floor
London EC4M 6XH United Kingdom

Dear members IFRS Foundation:

Universidad de Chile IFRS Technical Committee, an academic accounting body located in Chile, appreciates the opportunity to express its opinion on IASB's Exposure Draft "Hedge Accounting". We are pleased to provide you with remarks on the proposed International Financial Reporting Standard in response to your Invitation to Comment.

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?

We agree with the proposed objective to reflect the extent and effects of an entity's risk management activities in the financial statements. However, we're a little bit concerned about the hedge accounting' policies, because they are highly flexible and this could cause biased information.

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?

We agree with this proposal. It brings a better alignment.

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?

We agree with the designation of a combination of a derivative and another exposure as a hedged item because it's a common and useful risk management strategy.

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 (ie 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?

We agree with the decision to designate as hedge items the cash-flows or fair values attributable to a specific risk or risks.

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?**

We agree with the option to designate a layer of the nominal amount of an item as the hedged item if this is consistent with the hedge strategy of the firm.

- (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 agree with this exclusion, and we support this opinion because we think there's an uncertainty attached to an early termination of the contract. Anyway, it could be possible but it depends upon the characteristics of the prepayment option.

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?

We believe that the replacement of the effectiveness measurement and the introduction of an objective-based assessment will achieve flexibility for the implementation of hedge accounting, but it could be dangerous to include only the new criterion. We think both criteria must be considered.

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?**

We agree with this proposal, so the entity must rebalance the hedge relationship, but always considering the compliance of the risk hedging management objectives. Anyway, the entity must disclose the details of the change.

- (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?**

We agree with the proposal to rebalance proactively the hedge relationship.

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?**

We agree with the proposal, and we think paragraph IN27 is an appropriated support.

- (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?**

We agree with this proposal, because it considers adequately the compliance of the entity's risk management.

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?**

We agree with the proposed change of the fair value accounting mechanics as this will reduce the methods to just one and will also reduce the complexity. At the same time we suggest to include a detailed disclosure.

- (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 agree with the proposed presentation because it improves the information for the stakeholders.

- (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?**

Even though we agree with this proposal, we also believe that the linked presentation must be showed through a detailed disclosure.

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 (eg 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?**
- (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?**
- (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 (ie 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?**

Answer to questions (a), (b) and (c)

We agree with the proposal as it improves the treatment of ineffectiveness due to time value component in options when an entity designates as the hedging instrument only the change in the intrinsic value of the option.

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?

PENDIENTE

We don't agree with this proposal because the risks considered for the risk management purposes could be different to those considered for hedging purposes. Then, it's important for us to consider these kind of criteria only if the entity has adequately managed the hedged risk.

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 agree with the proposal.

Question 13

- (a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?**
- (b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?**

Answer to question (a) and (b)

We agree with the proposed disclosure requirements.

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?

We support this proposal because there're many transactions linked to commodities and other non-financial items.

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?**
- (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 think that the alternative treatments add unnecessary complexity to accounting for financial instruments, and then we don't agree with this proposal.

Question 16

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

We support prospective application of the proposals.

We appreciate the opportunity to comment on this IASB initiative. Should you have any questions, please contact us at 56-2-9783443 (Leonardo Torres).

Sincerely,

IFRS Technical Committee IFRS
Department of Management Control and Information Systems
Faculty of Economic and Business
Universidad de Chile