



March 9, 2011

Sir David Tweedie

Chair, International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

United Kingdom

Re: IASB Exposure Draft 2010/13, *Hedge Accounting* ("ED")

**Copy to:** Ms. Leslie Seidman, Chair, Financial Accounting Standards Board

Dear Sir David,

The Group of North American Insurance Enterprises ("GNAIE")<sup>1</sup> is pleased to provide comments to the Board on its ED designed to align hedge accounting more closely with risk management, establish a more objective-based approach to hedge accounting, and address inconsistencies and weaknesses in the existing hedge accounting model.

We agree with the objective of hedge accounting as outlined in the ED, which is to present 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 also support the proposed changes in the ED to replace the existing rules-based guidance with a more objective-based or principles-based approach for determining when an entity should be allowed to apply hedge accounting (hedge effectiveness assessment) and for determining what risks are eligible hedged items. While we support these aspects, there is no evidence (field testing) that the proposed guidance will achieve the desired benefits; will be applied in a manner consistent with the Board's objectives; or will be operational. As a result, we suggest the Board consider testing the application of this model for both financial and non-financial entities where some of the more complex aspects of the guidance will be applied to ensure the outcome of the testing is consistent with the Board's expectations.

### **Convergence**

While we support the changes proposed in the ED, we encourage the Board to continue to work with the FASB in developing a converged hedge accounting model. We support the hedge accounting changes proposed by both Boards. However, we believe the hedge

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<sup>1</sup> GNAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

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accounting model in the ED is preferable compared to the more limited proposed changes in the FASB's exposure draft<sup>2</sup> as the ED would provide reporting entities the opportunity to more faithfully represent their risk management activities in their financial statements and thus produce more relevant information for users of financial statements. We support a converged hedge accounting model as there are many operational implications should the U.S. adopt the IASB model after first adopting the FASB proposal.

### **Portfolio Hedging**

We recognize that the ED does not address portfolio hedge accounting. GNAIE would be supportive of applying similar concepts/objectives as those that are included in this ED when developing the portfolio hedge accounting model to more closely align the portfolio hedge accounting guidance with a financial institution's macro risk management activities and allow an entity's financial statements to more accurately reflect those risk management activities carried out at an enterprise level in profit and loss.

### **Specific Comments On ED**

While we generally support the hedging model described in the ED, we have specific concerns related to the following aspects of the proposed guidance (discussed in more detail below):

- Certain rules-based guidance
- Hedge Effectiveness criteria
- De-designation
- Fair value hedge

#### Rules-based Guidance

The ED includes some specific rules-based guidance that does not appear to be consistent with the overall principles-based approach in the ED and is not supported with strong justification on the need for this type of guidance.

*Hedged Risks* – We interpret the ED as implying that credit risk and inflation would not be eligible hedged risks in the proposal. With regard to credit risk, for example, we believe in certain circumstances (e.g. instruments that are traded in active, liquid and markets where liquidity risk is minimal), the credit risk component may be separately identifiable and reliably measurable. While inflation is discussed in the ED as not meeting the separately identifiable and reliably measurable criteria unless contractually specified, we would suggest that the ED not specify certain types of risks that cannot be eligible hedged risks but rather focus on criteria that would determine what qualifies as hedged risks or simply include the principle (separately identifiable & reliably measurable) for determining whether a risk component is an eligible hedged item. The elimination of examples of items that would not be eligible hedged risks would mitigate the potential that certain conditions change that may enable a particular risk to be deemed separately identifiable and reliably measurable in the future and would result in entities being allowed to use their judgment

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<sup>2</sup> Proposed Accounting for Financial Instruments Update released May 2010.

to determine whether certain risks would be eligible hedged items, which is more consistent with the principles-based framework in the ED.

*Layer Components* – The ED also references a layer component of a hedged risk impacted by a prepayment option as not being eligible as a hedged item. The proposed guidance should not prohibit hedge accounting for otherwise eligible hedged risks simply because prepayment may impact the value of the hedged risk. By prohibiting this type of hedging relationship, the ED would not align hedging accounting with risk management activities. Our member companies' risk management objectives may contain an objective to hedge, for example, interest rate risk associated with a principal payment on a bond that has a pre-payment option. We believe, as long as the hedging instrument also contains a mirror pre-payment option, an effective hedging relationship can be achieved. Additionally, we note that prohibiting this type of hedging relationship even when the impact of prepayment risk is significant would be inconsistent with the objective of hedge accounting in the ED. Furthermore, there would be no need to prohibit this type of hedging relationship since the ineffective portion of the hedging relationship would be recognized in profit and loss to the extent that a similar prepayment feature was not included in the hedging instrument.

*Tainting of Forecast Transactions* – In terms of forecast transactions, paragraph B65(b) discusses discontinuation of hedging accounting for forecasted transactions that allows rebalancing (which we support) when a portion of the forecasted transaction volume is no longer highly probable. We would propose the following edits to this paragraph to avoid including a 'tainting' notion within the ED that appears to be inconsistent with both the objective of the hedge accounting proposal and the rebalancing requirement noted in the first sentence of this paragraph:

*When the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. ~~However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expect to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast transactions. This affects the assessment whether similar forecast transactions are highly probable (see paragraph 14) and hence whether they are eligible as hedged items.~~*

If such edits are not made, any rebalancing of forecast transactions is likely to be strictly interpreted and may result in effectively prohibiting the use of hedge accounting for similar forecasted transactions (including similar forecasted transactions in existing hedge relationships). While an entity should consider previous history of hedged forecasted transactions that did not occur, the existing wording in the ED would result in a more strict interpretation in practice that would not be consistent with the objectives of the ED.

As an alternative to simply deleting the wording in paragraph B65(b) as shown above, we would suggest the following wording replace the proposed deleted wording from above:

The assessment for determining whether forecast transactions are highly probable (see paragraph 14) should consider an entity's history of designated hedges of similar forecast transactions, including similar forecast transactions that occurred as expected and similar forecast transactions that did not occur.

This alternative to the existing wording in paragraph B65(b) would highlight that an entity should consider both hedged forecasted transactions that occurred as expected and those that did not occur. An entity should consider their entire history of hedged forecasted transactions and not just those where the forecast transaction did not occur (as currently proposed in the ED). This change in the ED would ensure that a small number of 'missed' hedged forecast transactions would not jeopardize hedge accounting treatment when there are hundreds of historical hedged forecast transactions that have occurred as expected that would support the entity's assertion that existing hedged forecast transactions are high-probable to occur.

#### Hedge Effectiveness Criteria

We agree with the effectiveness requirements where a hedging relationship must meet the objective of the hedge effectiveness assessment and is expected to achieve other than accidental offsetting. However, we are concerned with the requirement to minimize ineffectiveness as a part of the objective of the hedge effectiveness assessment. Specifically, we are concerned that without clarification an entity may be required to evaluate every available hedging instrument to determine which instrument best minimizes ineffectiveness and then will be required to use that instrument in order to achieve hedge accounting, rather than allowing risk management activities to provide flexibility on what instruments are most efficient to utilize.

In our risk management activities, we sometimes choose the hedging instrument that 1) is more readily available in the market, 2) is the least costly, and 3) when used, will mitigate risks consistent with our objectives. Although an alternative instrument may result in less ineffectiveness, it may not be significantly different than the ineffectiveness generated by the hedging instrument chosen. The ED should be amended to indicate that in order to minimize hedge ineffectiveness, the entity need not justify why one instrument was chosen rather than another. Instead, we would propose the justification as to why the company chose the specific instrument as an effective hedging instrument be included as a part of the documentation and disclosure requirements.

#### De-designation

*Hedge Effectiveness No Longer Met* – We note that the ED includes an example to illustrate certain aspects of the guidance for de-designation (when hedge effectiveness criteria is no longer met due to severe credit deterioration) but does not include specific examples for other acceptable instances. If the Board includes examples, we would suggest there be at least two examples to avoid any negative implications of any one example being interpreted as the only acceptable situation where the hedging criteria would no longer be expected to be met (or imply there are limited situations).

The ED includes an example of severe credit deterioration for when an entity would discontinue hedge accounting as a result of no longer having met the objective of the hedge effectiveness assessment. We believe this example is an extreme situation and may imply there would be relatively limited other circumstances when one could de-designate a hedging relationship. We would propose that another example be included in the ED where de-designation could also occur when a historical relationship (correlation) between a hedging instrument and hedged item is expected to change in the future or has already changed sufficiently to warrant de-designation. In this situation, simply rebalancing this relationship would not achieve hedge effectiveness objectives.

*Voluntary de-designation* – We have concerns about the Board’s view with respect to not allowing an entity to voluntarily de-designate a hedging relationship. We note the Board’s basis for conclusion states that voluntary discontinuance of hedge accounting would be arbitrary and unjustifiable. We disagree with the Board’s reasoning. The initial application of hedge accounting is voluntary. Therefore, limiting the reasons for discontinuation of hedge accounting to exclude voluntary discontinuance seems to be inconsistent with the voluntary nature of hedge accounting. While some may view voluntary discontinuation to be a means of managing earnings—which implies one has the ability to predict the future changes in fair value of the hedging instrument—there are other reasons such as the cost of maintaining hedge accounting documentation, reporting hedge accounting results, and other operational burdens that are introduced as a result of hedge accounting. Additionally, documentation of hedging designations and de-designations should be contemporaneous with the actual designation or de-designation. As a result, the risk of managing earnings is substantially mitigated. Despite the changes in the ED, there are still significant costs that an entity incurs (and will continue to incur) in order to apply hedge accounting that may result in an entity desiring to voluntarily discontinue a hedging relationship while still holding the hedging instrument.

### Presentation

*Fair Value Hedge Separate Line Item*—The presentation guidance in the ED requires a separate balance sheet line item for the hedged item adjustment in a fair value hedge relationship. We believe the separate balance sheet line item presentation provides limited additional information on an entity’s risk management practices or hedge accounting practices because it represents only one side of the hedging activities (i.e., provides information about the hedged item and excludes any information about the related hedge). Additionally, we note this presentation could potentially distract from more meaningful information on an entity’s balance sheet. Since these amounts provide limited information without significant commentary and additional information needed to understand the hedging relationship, separate balance sheet presentation may be misleading to investors. Accordingly, we would recommend this information be presented in the notes to the financial statements, which is already a requirement in the ED.

*Comprehensive Income Presentation*—The presentation guidance within the ED is unclear with respect to how hedging activities are disclosed in the statement of comprehensive income. For example, the ED indicates the presentation of changes for fair value hedges

would add to the transparency in the financial statements as a result of reporting changes in fair value of the hedge item and hedging instrument in OCI with ineffectiveness being reclassified out of OCI to profit and loss. If the intent of the ED was to increase the number of line items that are required to be presented within the statement of comprehensive, GNAIE would not support this change in the ED. We believe additional line items in the statement of comprehensive income would distract from more relevant information and would not provide decision useful information as separate line items. The disclosures required in the ED provide sufficient information related to the amounts presented within the statement of comprehensive income without the need to present this information as separate line items.

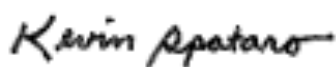
#### Fair Value Hedges

*Amortization*—The ED states that amortization of the hedged item adjustment should begin either as soon as an adjustment for the hedged item exists or when the hedged items ceases to be adjusted for changes in fair value. We believe that amortization should only begin when the hedged item ceases to be adjusted for changes in fair value and do not believe providing an option on when to begin amortization is necessary and appears to introduce complexity and lack of comparability between entities with similar hedging relationships where there is a difference in when an entity decides to begin amortization. Accordingly, we would propose that the ED be modified to only state that amortization should begin when the hedged item ceases to be adjusted for changes in fair value.

*Fair Value Through OCI Instruments*—There are certain aspects of the ED that would need to be reconsidered in the event that IFRS 9 *Financial Instruments* is changed to allow more instruments to be recorded at fair value through OCI (“FV-OCI”), which GNAIE supports. We recognize the reasons for prohibiting fair value hedge accounting for equities recorded at FV-OCI (including recycling). However, if IFRS is modified and the result is that more instruments would be classified as FV-OCI, we would expect the Board to reconsider whether FV-OCI instruments should be eligible for fair value hedge accounting. In addition to reconsidering eligibility of hedge accounting, we would also expect the Board to reconsider the proposed separate balance sheet presentation of the hedged item adjustment, which would not represent useful information if the entire underlying instrument containing the hedged item were required to be presented at fair value.

In addition to the comments above, we have included our responses to the questions in the ED. If the Board desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.

Sincerely,

A handwritten signature in black ink that reads "Kevin Spataro".

Kevin A. Spataro, Chair  
Accounting Convergence Committee

KAS:JE:dwb



## RESPONSE TO QUESTIONS:

**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?**

For the reasons stated in our letter, we agreed with the proposed objective in the ED.

**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 the provisions in the ED that would allow these instruments to be eligible hedging instruments and believe this would be consistent with the objective of hedge accounting to more closely align with risk management activities. As mentioned in our opening comments, we suggest the Board consider testing the application of the model to validate that the results are consistent with the Board's expectations.

**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 provisions in the ED that allow aggregated exposures to be designated as a hedged item and believe this would result in providing a more accurate reflection of an entity's risk management activities when an aggregate exposure is being hedged.

**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?**

We agree that risk components should be eligible hedged items if they meet the separately identifiable and reliably measurable criteria. This guidance for risk components results in more principles-based criteria and results in more consistency in the approach for identifying eligible hedge risk components for both financial and nonfinancial instruments. As stated in our letter, we have specific concerns with respect to the identification of items that the Board does not believe would meet the separately identifiable and reliably measurable criteria. GNAIE recommends the ED only include examples that would meet the criteria in order to demonstrate the principles of the criteria.

**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 allowing layer components to be designated as a hedged item and support this proposed change in the ED. This change would enable reporting entities to more accurately present the result of risk management strategies when hedging layer components. While we support this change in the ED, we have specific concerns related to the limitations when the hedged item is impacted by prepayment risk (see our response to Question 5(b) below).

**Question 5 (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?**

For the reasons stated in our letter, we disagree with the proposed guidance that would not allow fair value hedge accounting for a hedged risk that is impacted by a prepayment option when hedging a layer component.

**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 hedge effectiveness requirements, we have specific concerns related to how an instrument utilized should be considered when determining whether a hedging relationship minimizes ineffectiveness. The ED should be amended to clarify that the instrument utilized should not impact the hedge effectiveness assessment. As a result of clarifying this guidance, preparers would avoid having to incur additional operational costs/burden from being required to justify why the hedging instrument chosen minimizes ineffectiveness compared to other instruments that may be more costly or less desirable from a risk management perspective.

**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?**

While we support the concept outlined in the ED that would allow rebalancing, we disagree with the proposed guidance that would require rebalancing, rather than allowing entities the option to rebalance. Rebalancing should not be a requirement but rather an option to be consistent with the voluntary nature of hedge accounting. If an entity decides not to re-



balance, de-designation should be allowed. If rebalancing continues to a requirement in the final guidance, there would be undue operational costs for preparers to assert that rebalancing is not necessary. If there are concerns with changing the rebalancing requirement to be voluntary when no ineffectiveness is being recorded for under-hedges in a cash flow hedge, the final guidance could be changed to require ineffectiveness be recorded for both over and under-hedges for cash flow hedges (similar to the FASB proposal) and remove the requirement to rebalance to minimize ineffectiveness.

**Question 7 (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 guidance in the ED that allows for prospective rebalancing and believe this provision results in better alignment of hedge accounting with risk management activities where risk management activities may involve rebalancing in anticipation of changes associated with future events or conditions. As stated in our response to Question 7(a), we believe the option for rebalancing should be available regardless of the reason for rebalancing. Rebalancing should be based on modifications in the risk management objective and shifts/rebalancing in risk management.

**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?**

As stated in our letter, we disagree with the provisions in the ED that would limit the ability to voluntarily discontinue hedge accounting. Entities should have ability to voluntarily terminate a hedging relationship. This voluntary termination would be consistent with the voluntary nature of originally applying hedge accounting.

**Question 8 (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?**

As stated in our letter and our response to Question 8(a), we disagree with the provisions in the ED that would not permit an entity to discontinue hedge accounting. While the ED may reduce the burden on preparers when applying hedge accounting, hedge accounting still results in significant costs to preparers that may result in an entity deciding the costs

of continuing to apply hedge accounting outweighs the benefits. Accounting guidance should not force the entity to terminate/settle the underlying hedging instrument in order to discontinue hedge accounting. Voluntary termination of hedging relationships should be permitted in the ED.

**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?**

See our response in our introductory comments as related to this topic.

**Question 9 (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?**

As stated in our response to the letter, we disagree with the separate line item presentation for fair value hedges as outlined in the ED. The disclosure requirements of the ED already include this information and such disclosures should provide sufficient information for users to understand the impact on the financial statements for these hedging relationships and hedge item adjustments.

**Question 9 (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?**

We agree based on the same reasons the Board noted in the basis for conclusions. We do not believe linked presentation would be appropriate in any situation as a result of potentially understating total assets or total liabilities of an entity.

**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 capitalized 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?**

No comment.

**Question 10 (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?**

We believe the requirement to determine the aligned time value of an option and only defer that portion in accumulated other comprehensive income creates additional complexity that would result in additional costs to preparers when trying to apply hedge accounting for options. We believe the transfer of the aligned time value of options should not be a requirement but rather an option that an entity could elect this treatment at inception of the hedging relationship. This would allow entities with less sophisticated operations to exclude the time value component from their assessment of ineffectiveness and would not impose the burden of calculating and deferring the aligned time value component. For these entities, the changes in the time value of the option would be recorded in profit and loss each period.

**Question 10 (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?**

As stated in our responses to Question 10(b), we believe the provision in the ED related to time value of options increase complexity and should be elective if these provisions are retained in the final guidance.

**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?**

We agree with the criteria for determining eligible groups of items as a hedged item. However, we note the ED is unclear in terms of the definition or intended meaning of groups of items. We note the basis for conclusions includes wording that appears to clarify the Board's intention related to what would be considered eligible groups of items and believe similar wording should be included in the appendix of the final standard to ensure appropriate interpretation of what is considered eligible groups of items.

**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 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?**

No comment.

**Question 13 (a): Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?**

While we do not disagree with the proposed disclosure requirements, we would urge the Board to consider the current U.S. GAAP disclosure requirements for derivatives and re-deliberate the disclosure requirements with the FASB to ensure convergence of the final disclosure requirements.

**Question 13 (b): What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?**

No comment.

**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?**

No comment.

**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?**

We agree that the alternative accounting treatments described in the basis for conclusions for hedges of credit risk would add unnecessary complexity. We would have concerns if credit risk is not considered an eligible hedge risk as this would seem to contradict other areas of accounting literature (such as embedded derivatives and impairment) where quantification of embedded credit derivatives or credit losses on financial assets are recorded in an entity's financial statements. By not considering credit risk to have met the separately identifiable and reliably measureable criteria, the Board would effectively be indicating that the hedge accounting criteria for risk components would represent a higher measurement threshold than impairments and embedded derivatives that are recorded in an entity's financial statements. We believe credit risk should be an eligible hedged item in the ED and believe the alternative accounting treatments would not be necessary if credit risk were considered an eligible hedged risk.

**Question 15 (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?**

As stated in our response to Question 15(a), we agree that all three alternatives would add unnecessary complexity and should not be developed further.

**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 the transition guidance in the ED but believe certain aspects should be clarified in the final guidance.

GNAIE supports the transition provision that allows for an entity to account for existing hedge relationships under (IAS 39) as continuing hedge relationships if they meet the requirements of the ED. Based on the documentation requirements and rebalancing criteria in the ED, this should allow entities to update their hedging accounting documentation (which we support) to comply with the new guidance and eliminate the previous documentation that was written under a much different rules-based framework. The ability to update this documentation to comply with the new guidance will enable entities to immediately benefit from the principles-based guidance in the ED and would not require a de-designation and re-designation event to occur for an entity to benefit from the new guidance. We recommend clarifying the transition guidance to ensure this interpretation is applied consistently.

The transition guidance is unclear with respect to the treatment of OCI related to cash flow hedges of forecasted transactions that may have been terminated prior to the effective date of the new proposed guidance, but for which the forecasted transaction occurs after the effective date. While the guidance in the ED for when these amounts should be recognized is similar to existing guidance, we recommend the final guidance explicitly state that the transition guidance for terminated cash flow hedges of forecasted transaction requires the amounts recorded in OCI to be maintained in OCI and to be recognized in income based on the relevant guidance in the ED (when the forecasted transaction affects income). This would also alleviate concerns with having to apply the old hedge accounting guidance for the entire life of the forecasted transaction, which could be several periods/years after the new guidance is adopted.