

Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
Accountant
Individual Commentary
Rio de Janeiro / Brazil

Sir Chairman David Tweedie
International Accounting Standards Board – IASB
Cannon Street, 30 - London
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Subject: Exposure Draft of Hedge Accounting

Sir. Chairman and Trustees of The IASB

I'm Denise Juvenal this is my individual commentary and is pleased to have the opportunity to comment this proposal of Exposure Draft of Hedge Accounting.

I separated some important view points of the discussion of hedging:

1. AG 107 IAS 39 this Standard does not specify a single method for assessing hedge effectiveness. The method an entity adopts for assessing hedge effectiveness depends on its risk if the entity's risk management strategy is to adjust the amount of the hedging instrument periodically to reflect changes in the hedged position, the entity needs to demonstrate that the hedge is expected to be highly effective only for the period until the amount of the hedging instrument is next adjusted. In some cases, an entity adopts different methods for different types of hedges. An entity's documentation of its hedging strategy includes its procedures for assessing effectiveness. Those procedures state whether the assessment includes all of the gain or loss on a hedging instrument or whether the instrument's time value is excluded. management strategy".
2. If the principal terms of the hedging instrument and of the hedged asset, liability, firm commitment or highly probable forecast transaction are the same, the changes in fair value and cash flows attributable to the risk being hedged may be likely to offset each other fully, both when the hedge is entered into and afterwards. IAS 39 AG110

3. To qualify for hedge accounting, the hedge must relate to a specific identified and designated risk, and not merely to the entity's general business risks, and must ultimately affect the entity's profit or loss. A hedge of the risk of obsolescence of a physical asset or the risk of expropriation of property by a government is not eligible for hedge accounting; effectiveness cannot be measured because those risks are not measurable reliably. IAS 39
4. This exposure draft proposes that the objective of hedge accounting is to represent 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. This aims to convey the context of hedging instruments in order to allow insight into their purpose and effect. IN 12
5. In the Board's view, consistent application of hedge accounting requires an objective that describes *when* and *how* an entity should:
 - (a) override the general recognition and measurement requirements in IFRSs (ie when and how an entity should apply hedge accounting); and
 - (b) recognise effectiveness and/or ineffectiveness of a hedging relationship (ie when and how gains and losses should be recognised).BC13

Epstein et al (2009, pg 191) The proposal IAS 39 of the Financial Instruments defines of the types of the hedging as: fair value hedges, cash flows hedges, and hedge of a net investments, in this specific case a hedge is using a derivative or other financial instrument of foreign currency exposed in the assets of a foreign operation. If all financial instruments were market (fair), values, there would be no need for special accounting except, perhaps, for hedges of unrecognized firm commitments and forecasted transactions.

Considering that risk management is the principal structured for hedge accounting, number 88, b of the IAS 39 said that: "The hedge is expected to be highly effective (see Appendix A paragraphs AG105–AG113) in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship".

For this, I observed that risk management's depends of the analysis of the risk strategy, and this method is very complexity and I don't know if is responsibility of the IASB make measurement of identify activities risk management, I have doubt, because if IASB makes definition something that depends of approved of the others regulators, can be occurred some problems that can be impact of this standard.

I agree with the objective hedge accounting, the problem isn't only to represent in the financial statements the effect, in this aspect is very complexity for IASB demonstrate of the activities of risk management in the financial statements, but, if the IASB changed for measurement or similar is definition of risk management is different, the most important is the method for calculated as cost management and the risk management integrated in the structured of Statement.

I recommend to consulting some institutions or organizations specified about Cost Management and Strategy for companies, for example Blocher et al (2008) "strategic cost management is the development of cost management information to facilitate the principal management function, strategic management", if not the IASB can have problems in the jurisdictions and local rules that don't be your responsibility.

Risk Management elaborated for IASB is very different than others, Financial Instruments is very complexity study, for this is very important a regulator specific of this subject integrated of discussion.

I think that cash flows or fair value are measurable as cost management, for example Blocher et al comments importants aspects as follows:

(2008, p.832) comments "Discounted Cash Flows and non-Dicounted Cash Flows representing capital budgeting tha can be represent or not present value of future cash flows. as example payback, rate of return."

(2008, p.833) "The discount rate can be approximated as the firm's weighted-average cost of capital – WACC, the use of a firm's WACC as the discount rate for capital budgeting purposes is, however appropriate only for average-risk projects. In the situation where a project under consideration higher or lower risk than average, an adjustment to the firm's WACC is needed (upwards for higher risk projects, downwards for lower risk projects)."

(2008, p.834) “the Capital asset pricing model – CAPM depicts the risk-return relationship for equity securities and can be used to estimate the required rate of return on equity for a given company; equal to the risk-free rate of return plus a risk premium measured as the product of beta coefficient and the market-risk premium.”

A aspect important is defined which beta coefficient is a measure of the sensitivity, that can be help this is not hedge portfolios and calculated cost of debt, as the percentage of return.

This proposed of Hedge is integrated the Balanced Scorecard with Value Chain that results in the effectiveness implemented in corporate strategy, if the objective of study of hedge is to be strategic management is very important to observated others considerations about cost analysis, I ´ don´t know, I think this.

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?

Yes,

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?

Yes,

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?

Yes,

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?

Yes,

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?

Yes,

(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?

Yes,

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?

Yes,

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?

Yes,

(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?

Yes,

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?

Yes,

(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?

Yes,

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?

Yes,

(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?

Yes,

(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?

Yes,

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?

Yes,

(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?

Yes,

(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?

Yes,

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?

Yes,

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?

Yes,

Question 13

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

Yes,

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

Yes,

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?

Yes,

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?

Yes,

(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?

Yes,

Question 16

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

Yes.

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5. Blocher, Edward, Stout, David, Cokins, Gary and Chen, Kung. Cost Management A Strategic Emphasis Fourth Edition. Mc Graw-Hill Irwin.

Thank you for opportunity for comments this proposals, if you have questions don't hesitate contact to me, rio1042370@terra.com.br.

Yours Sincerely,

Denise Silva Ferreira Juvenal

rio1042370@terra.com.br

552193493961