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International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

RE: Hedge Accounting Exposure Draft ED/2010/13

The National Oilseed Processors Association (NOPA) represents the U.S. soybean, sunflower, canola, and safflower seed crushing industries. NOPA's 14 member companies crush approximately 95% of all soybeans processed in the United States. NOPA member companies process more than 1.7 billion bushels of soybeans annually at 58 plants located throughout the country. A list of NOPA member companies is attached.

Some of our member companies currently do business globally, and have subsidiaries outside of the U.S. that prepare IFRS financial statements. Our members are closely following the accounting standard convergence efforts of the FASB and the IASB, and the SEC's work plan as it considers possible future adoption of IFRS standards in the U.S. For these reasons, we have a keen interest in the IASB's hedge accounting exposure draft and its convergence efforts with the FASB on this topic.

NOPA is pleased to provide its comments concerning the Hedge Accounting exposure draft. We support the purpose and direction of the proposed amendments to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, which change the scope of the standards to include a contract that was entered into and continues 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. However, we believe the final actual wording of these amendments should be exposed for comment to allow for evaluation and sufficient due process. The proposal would require such a contract to be accounted for as a derivative if that accounting is in accordance with the entity's underlying business model and how the contracts are managed. In most cases, this proposal resolves a significant difference between current U.S. GAAP and IFRS that is of significant concern to our member companies. However, while eliminating an accounting mismatch in the majority of cases, this proposal would create an accounting mismatch in certain other cases. We believe that permitting, rather than requiring, application of this amendment would provide a better solution and be consistent with US GAAP. Finally, we believe that this scope change must be retrospectively applied upon its effective date to achieve comparable financial reporting for all periods presented.

Our detailed responses to certain of the questions posed in the exposure draft are attached. We appreciate the opportunity to provide our comments and would be pleased to discuss our views.

Best regards,

A handwritten signature in black ink, reading "Thomas A. Hammer". The signature is written in a cursive, flowing style.

Thomas A. Hammer
President

Enclosures

National Oilseed Processors Association

Member Companies

(As of December 2010)

Ag Processing Inc a cooperative

Archer Daniels Midland Company

Bunge North America, Inc.

Cargill, Inc.

CHS

Consolidated Grain and Barge Company

Creston Bean Processing, LLC

Incobrasa Industries, Ltd.

Louis Dreyfus Commodities

Owensboro Grain Company, LLC

Perdue Grain & Oilseed, LLC

Riceland Foods, Inc.

South Dakota Soybean Processors, LLC

Zeeland Farm Soya

Our response to Question 14 is provided first, as it is our predominant concern, and our response also provides background information about our industry's risk management practices.

Q14. 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 agree with the purpose and direction of this proposal, as it resolves, in most cases, a difference between U.S. GAAP and IFRS that is a significant concern for our industry. However, we believe that providing an accounting election for the application of the amendment, similar to US GAAP, would provide a better solution. In certain cases, a commodity position risk is managed internally on a fair-value basis, but an element of the position, such as a commodity inventory, may not qualify for fair value accounting treatment. In such cases, an accounting mismatch would be created by scoping related contracts into derivative accounting on a mandatory basis.

We believe that the proposed scope changes to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, as outlined in Appendix C, must be applied retrospectively to all comparative periods presented in order to achieve comparability of the financial statements. We find the guidance in the exposure draft to be unclear on this point. We also believe the final actual wording of the proposed scope amendments should be exposed for comment to allow for full evaluation and sufficient due process.

The following discussion provides background on our industry and analysis as to why we support the proposed amendments.

The oilseeds processing industry is in the business of procuring, transporting, storing, processing and merchandising agricultural commodities and products, such as soybeans, sunflower, canola, and safflower, and products that are derived there from. Our processing inputs are agricultural commodities and in most cases our products are also agricultural commodities with robust, liquid markets. To meet customer requirements and to facilitate logistics, the oilseeds processing industry typically enters into a significant volume of forward purchase and sales contracts that precede production. We generally follow a policy of using exchange-traded futures and options contracts to manage to a nearly zero net risk position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. Our industry's longstanding accounting under U.S. GAAP allows for measurement and recording of inventories, futures, options and forward contracts at fair value, with changes recognized in earnings immediately, which is consistent with the method we use to manage our businesses' risk positions.

In many cases, our businesses are organized to have broker-trader operations which may be operationally separate and distinct from our procurement and processing operations. However, we generally analyze and monitor our net commodity risk position, comprised of agricultural commodity inventories, physical commodity forward purchase and sales contracts and exchange traded futures and options, on an aggregate basis across the organization, without regard for the operation in which the contract is held. As any one component of our risk position changes, we typically adjust one or more

offsetting components in order to maintain a net position that is as close to zero as possible. These offsetting net position components may be taken through any of the broker-trader, procurement, or processing operations. Physical commodity forward contracts, exchange-traded futures and options, and inventories are typically risk-managed on a fair value basis, using either cash-settled or physically-settled contracts, within normal operating and trading volume levels.

Under U.S. GAAP, we generally rely on either ASC 330-10-35-15 and -16, *Stating Inventories Above Cost*, or the AICPA Broker-Dealer Industry Guide in order to recognize inventory at fair value on a recurring basis. Additionally, we rely on ASC 815, *Derivatives and Hedging*, to record physically-settled forward contracts and cash-settled futures and option contracts at fair value on a recurring basis. Few, if any, of our industry participants elect to document the optional “normal purchase, normal sale” exception from ASC 815 to exclude recording physically-settled forward contracts at fair value.

NOPA members expect to continue to manage their net commodity risk positions (inventory, forward purchase and sale contracts, and exchange-traded futures and option contracts) based on market values at any given point in time to provide the ongoing economic analysis necessary to effectively manage the business. However, we believe the current IFRS guidance, if the changes in the ED are not adopted, would lead to a disparity between our position management and our financial reporting requirements.

For IFRS financial reporting purposes, members expect to reflect their commodity inventories at net realizable value as most of our products are agricultural commodities with robust, liquid markets and paragraph 8 of IAS 2 states:

“The Standard does not apply to the measurement of inventories of producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established industry practices.”

We believe our past practice of recording inventories at fair value, as well as the practice of using net realizable value employed by agricultural processors currently reporting under IFRS provide the basis for a well-established industry practice in this area.

Under the current provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, exchange-traded contracts entered into by operations and not expected to be physically settled would also continue to be recognized at fair value, regardless of the operation (i.e., broker-trader, procurement or processing) entering into the contract, as these instruments meet the definition of financial instruments and are not subject to any scope exception.

However, many of the physical purchase and sale contracts entered into by NOPA members’ procurement and processing operations can be identified at their inception as meeting the normal usage definition, and therefore, would be considered “own use” contracts, requiring us to account for these contracts as executory contracts off-balance sheet, based on the following discussion in paragraph 5 of IAS 39 (bold added):

“This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial

*instruments, as if the contracts were financial instruments, **with the exception of contracts 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.***"

Physical purchase and sale contracts with similar quantity, pricing and general business terms as those existing in the procurement and processing operations are entered into by the members' broker-trader operations, effectively offsetting risk positions of the other operations. These contracts are viewed and managed as part of the overall commodity risk position, combining the broker-trader, procurement, and processing functions. Contracts within the broker-trader operations that are not expected to be required in the businesses' normal usage would be recorded at fair value with changes recognized in earnings immediately. It is clear that the physical purchase and sale contracts for these merchandisable agricultural commodities meet the definition of financial instruments; the difference in accounting is merely that in our procurement and processing operations these contracts would be subject to the current scope exception of paragraph 5.

As a result, we have concerns that if the changes proposed by this ED are not adopted, current IFRS standards involving "own use" contracts would introduce a mixed attribute measurement model where it does not exist today under U.S. GAAP for agricultural commodity positions in the oilseeds processing industry, resulting in earnings that would not reflect the underlying economic performance of our business and would therefore not be meaningful for users. As described above, the effect of this mixed attribute model on our businesses would be two-fold: 1) inventory and exchange-traded contracts in the procurement and processing operations would be carried at fair value while physical contracts would be accounted for as executory contracts off balance sheet, resulting in an inability by financial statement users to determine the financial impact of the net position of the business, and 2) physical purchase and sale contracts with similar characteristics and terms would be accounted for differently in different divisions of the same organization depending on which operation originally entered into the contract, despite the integrated nature of their risk management.

Currently within the scope of IAS 39 is discussion of the designation of an instrument as fair value through profit and loss, and the criteria which need to be satisfied to support this accounting treatment. We analogize our "own use" contracts to the guidance in paragraph 9 of IAS 39, which states (bold added):

*"An entity may use this designation only when permitted by paragraph 11A, or when doing so results in **more relevant information**, because either*

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented

risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 Related Party Disclosures (as revised in 2003), for example the entity's board of directors and chief executive officer."

The oilseeds processing industry's "own use" contracts satisfy both points.

- (i) Financial results based on the impact of marking the entire commodity position (including futures, options, forward contracts and inventories) to fair value are more relevant for users because they are consistent with the way the business is managed and present a more relevant view of the economics of the entire commodity position based on market price movements. While the above paragraph does not directly apply to "own use" contracts (since "own use" contracts are currently outside the scope of IAS 39), the intent and spirit of IAS 39 appears to be an effort to provide additional relevance and transparency in the presentation of financial instruments. We believe that the prohibition of derivative accounting for "own use" agricultural commodity contracts is contrary to this intent.
- (ii) As described above, commodity contracts, futures and inventories are typically risk-managed on a fair value basis, and overall net position management may rely on using either cash-settled or physically-settled contracts within normal operating and trading volume levels.

The scope of IFRS 9, *Financial Instruments*, is the same as IAS 39; it also excludes "own use" contracts. However, paragraph BC8 of IFRS 9 includes as stated goals:

- (i) *"reducing the number of classification categories and providing a clearer rationale for measuring financial assets in a particular way", and*
- (ii) *"aligning the measurement attribute of financial assets to the way the entity manages its financial assets ('business model') and their contractual cash flow characteristics, thus providing relevant and useful information to users for their assessment of the amounts, timing and uncertainty of the entity's future cash flows."*

We believe accounting for merchandisable agricultural commodity contracts consistently, particularly given the level of integration of the risk management function across trading, procurement and processing operations within NOPA members' businesses, is the most comparable, relevant, and understandable way to present our results to the users of the financial statements.

Responses to other selected questions

Q1. 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. We support providing the users of our members' financial statements with the most accurate information that faithfully represents our business activities—in this case, particularly our risk management activities. Our industry's longstanding accounting under U.S. GAAP allows for measurement and recording of commodity inventories, futures, options and nonfinancial commodity forward purchase and sale contracts at fair value, with changes recognized in earnings immediately, which is consistent with the method we use to manage our businesses' risk positions. If the proposed change to paragraph 8 of IAS 39 is adopted, we expect our accounting under IFRS for most of our oilseed products will also achieve this objective without the need to apply hedge accounting. However, for managing other types of risks and for certain agricultural products, hedge accounting may be necessary in order to provide accurate financial information, and we support hedge accounting standards that would allow us to achieve the proposed objective.

Q4. 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 with this proposal. There are many agricultural commodities that are traded in robust markets where price is readily determinable. It is common, in fact a very longstanding practice, for agricultural companies to economically hedge the commodity price risk component of products, and we believe that hedge accounting should be available to reflect this risk management activity in the financial statements.

We request clarification on whether the "sub-LIBOR" issue is relevant to commodities that are hedged items. For example, the price for a contract to deliver soybeans to a particular location could be less than the price to deliver to the location referenced in the standards futures contract. We do not believe this systematic negative spread should bar the designation of an accounting hedging relationship. Another example would be hedging a commodity output using the commodity input futures contract. In many cases in our industry, a commodity input is processed into more than one commodity output product. For example, soybean processing results in two primary commodity outputs: soybean oil and soybean meal. All three commodities are actively traded on commodity future exchanges. We believe that it would be appropriate to consider the price risk of the physical input, appropriately sized, as a risk component of the commodity output.

Q11. 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 proposed criteria for the eligibility of groups of items as a hedged item. It is common in the agricultural processing industry to hedge groups of items as a net position, as described in our response to Question 14. Hedge accounting is not commonly used by our members currently, because a similar objective is achieved under US GAAP via fair value accounting for most of our products, as

described in our response to Question 14. However, in other situations, we believe it would be beneficial for hedge accounting to be available to reflect the way such positions are actually managed.

Paragraph 34 (c) narrows the application, for cash flow hedging only, to offsetting cash flows that affect profit or loss in the same reporting period and only that period. We do not agree with that portion of the proposal, and support going further, allowing hedge accounting to be applied to a dynamic net position, because that approach would better reflect actual risk management practices in certain situations.

Q16. Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

We agree with the prospective transition method with respect to hedge accounting changes and with the option for early adoption. We believe that the proposed scope changes to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, as outlined in Appendix C, must be applied retrospectively to all comparative periods presented in order to achieve comparability of the financial statements. We find the guidance in the exposure draft to be unclear on this point.