



BNY MELLON

March 3, 2011

Dr Alan Teixeira
Director of Technical Activities
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: IASB File: Hedge Accounting Exposure Draft – ED/2010/13

Dear Sirs,

The Bank of New York Mellon Corporation (“BNY Mellon”) appreciates the opportunity to comment on the IASB’s Exposure Draft on Hedge Accounting – ED/2010/13 (the “Exposure Draft”). BNY Mellon is a global financial institution with \$247 billion in assets and \$1.17 trillion in assets under management.

We strongly support the IASB’s proposal because it aligns accounting with the business model and risk management, it is more principles based and it enhances presentation and disclosure requirements. We believe this Exposure Draft should form the starting point upon which both the IASB and the FASB develop their converged hedge accounting proposal as it provides a superior starting point than the FASB’s proposals contained in its Financial Instruments Exposure Draft that was issued in May 2010. We believe that the FASB’s existing detailed hedge accounting rules, including the prescriptive Derivatives Implementation Group (“DIG”) issues regarding hedge accounting, would not form a suitable base for a converged international hedge accounting standard. The FASB’s standard on Derivatives and Hedging Activities has

long been regarded as the most complex and rules based standard in US GAAP, requiring deeply specialized technical accounting resources to ensure compliance, yet there have been hundreds of restatements since it became effective in 1999.

Along with the FASB's recent Discussion Paper "Selected Issues about Hedge Accounting" that seeks additional comments on the IASB's Exposure Draft by April 25, 2011, once the two comment periods have concluded, we encourage both boards to meet together to redeliberate and agree on a converged identical standard.

While the Exposure Draft's proposed presentation of all hedges in Other Comprehensive Income ("OCI") appears to have some merits in that it would initially place all gains and losses from hedges (whether Fair Value, Cash Flow or Foreign Currency Hedges) in one place on the financial statements, we are concerned that the separate transfer of ineffectiveness from OCI to profit and loss may introduce accounting complexity and would present some operational challenges. This may also encourage certain constituents to develop arbitrary "bright line" criteria for determining when to make such transfers.

We do have concerns that the proposed hedge effectiveness assessment proposal requiring an "unbiased" result and to minimize expected hedge ineffectiveness in the Exposure Draft may be interpreted by some to mean something different from the risk management objective. We believe that the IASB might consider revising the hedge effectiveness standard to that of "reasonably effective" which is the FASB's proposal contained in its Financial Instruments Exposure Draft.

As we have commented on August 15, 2008 to the FASB in response to its Hedge Accounting Exposure Draft we strongly believe that hedges should be permitted to be dedesignated and redesignated in new hedging relationships. The ability to dedesignate and redesignate hedging relationships are asset and liability management ("ALM") strategies currently available to the ALM manager when asset and/or liability profiles change. This would align with sound risk management strategies and ensure that unnecessary transactions costs and administrative costs be minimized.

Macro hedging has not been addressed in this Exposure Draft. Since the principles laid out in this project may have unanticipated consequences if carried over into the macro hedging project, we encourage that a complete converged standard should be reissued for a short comment period.

We intend to comment in more depth on the FASB's discussion paper by April 25, 2011, however in this letter we have attempted to address most of the questions they have raised that would impact preparers.

We have commented on each of the questions raised by the IASB in the following sections of this letter.

**Objective of hedge accounting
(paragraphs 1 and BC11-BC16)**

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, we agree with the proposed objective to align hedge accounting more closely with risk management, and to provide more useful hedge accounting information. We agree that the stated “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”. As a preparer, we also support any reduction in the complexity of hedge accounting.

We agree with the IASB’s approach to create a chapter for hedge accounting in IFRS 9 (that will ultimately replace IAS 39 in its entirety), thereby ultimately deleting all existing IASB literature on hedge accounting once the new standard becomes effective. We have previously commented to the FASB suggesting they take a similar approach with regard to its rules for derivatives and hedge accounting, which would require the deletion of its existing literature, including the Derivatives Implementation Group (DIG) issues. This will help reduce complexity.

**Instruments that qualify for designation as hedging instruments
(paragraphs 5-7 and BC28-BC47)**

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. Financial statements should faithfully represent the risk management and hedging activities of the reporting entity. Artificially excluding selected assets and liabilities from accounting in hedging relationships distorts their financial statement presentation.

**Derivatives that qualify for designation as hedged items
(paragraphs 15, B9 and BC48-BC51)**

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, we believe that this will align with an entity’s risk management objectives where they may assess and manage risk according to certain aggregated exposures. This may include

combination of an exposure with a derivative so that it creates a different aggregated exposure that is managed as one exposure for a particular risk (or risks).

We also believe that derivatives should be permissible as hedged items under the proposal.

**Designation of risk components as hedged items
(paragraphs 18, B13-B18 and BC52-BC60)**

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?

Yes, we agree that an entity be permitted to designate as the hedged item something other than the entire fair value change or cash flow variability of an item, i.e. a risk component. We also agree that the risk component be separately identifiable and reliably measurable and believe that this will encourage certain accounting (and risk management) discipline. We agree that an entity should assess such risk components in the context of the particular market structure to which the risk or risks relate and in which the hedging activity takes place, based on the relevant facts and circumstances, which differ by risk and market.

We agree that the hedge effectiveness requirements should apply to the risk components in the same way as they would to other hedged items that are not risk components, including determining a hedge ratio so that the hedging relationship will produce an unbiased result and minimize expected hedge ineffectiveness, and any hedge ineffectiveness must be measured and recognized.

We agree that inflation is not separately identifiable and reliably measurable and cannot be designated as a risk component of a financial instrument unless it is contractually specified. However, certain indices (e.g. CPI) are separately identified and reliably measured, that may qualify as a risk component that qualifies for hedge accounting consideration.

**Designation of a layer component of the nominal amount
(paragraphs 18, B19-B23 and BC65-BC69)**

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, to align with management's risk management objectives. For many financial items that contain a risk component there is a stable base amount that may be hedged so as to be reasonably effective, and amounts above that base which are less predictable and difficult to hedge.

- (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?**

No. We believe that this exclusion is a rule that would not permit consideration of prudent risk management strategies to hedge financial instruments that contain prepayment options.

**Hedge effectiveness requirement to qualify for hedge accounting
(paragraphs 19, B27-B39 and BC75-BC90)**

Question 6

Do you agree with the hedge effectiveness requirement as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

Yes, we agree that the hedge effectiveness requirement should be that a hedging relationship:

- (a) meets the objective of the hedge effectiveness assessment (i.e. to ensure that the hedging relationship will produce an unbiased result and minimize expected hedge ineffectiveness); and
- (b) is expected to achieve other than accidental offsetting.

We agree that the bright line effectiveness test of 80%-125% be removed from the accounting standard, because it has disconnected hedge accounting and risk management.

We do have some concerns with how the proposed hedge effectiveness requirement compares to the earlier proposal from the FASB, that contained a "reasonably effective" criteria and that would not require prospective effectiveness assessments be performed except for certain circumstances. The IASB proposal would require, at a minimum, that an entity shall perform the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

We agree that the method for assessing hedge effectiveness can be a qualitative (such as where the critical terms of the hedging instrument match with the hedged item) or a quantitative assessment.

**Rebalancing of a hedging relationship
(paragraphs 23, B46-B60 and BC106-BC111)**

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 believe that this should not be a requirement in the standard because it may require accounting that would not align with the risk management objectives. We do acknowledge the proviso language above, however another way of describing this might be that “an entity may elect to rebalance the hedging relationship after consideration of the risk management objective.”

The proposal would also require that on rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognized in profit and loss immediately before adjusting the hedging relationship. We believe that such profit and loss recognition should not be required when the rebalancing is achieved for under hedges by the designation of an additional (or new) hedging instrument.

- (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. We believe that this rebalancing not be a “requirement” and that the standard of effectiveness should be “reasonably effective” as we have previously discussed.

**Discontinuing hedge accounting
(paragraphs 24, B61-B66 and BC112-BC118)**

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?**

No, we believe that as part of its risk management functions, entities often may dedesignate hedging instruments (and then potentially redesignate in a new hedging relationship). The accounting should be representative of an entity’s risk management strategies.

- (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?**

No.

As with our earlier comments to the FASB in June 2008, we believe that an entity should not be precluded from dedesignating and redesignating hedging relationships at the asset and liability manager's discretion when asset and/or liability profiles change.

**Accounting for fair value hedges
(paragraphs 26-28 and BC119-BC129)**

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 recognized 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?**

No. We believe that splitting the recognition of the gain or loss between comprehensive income and the income statement would introduce unnecessary complexity to the accounting for fair value hedges. We would prefer that fair value hedges be accounted for through the income statement only. Any ineffectiveness would then be captured in the income statement, which would produce the same effect therein, and there would be no separate accounting performed through other comprehensive income.

- (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?**

No. We believe that for hedged items that are subject to fair value hedges, that fair value is the more relevant measurement attribute in the statement of financial position. Disclosures may be provided in the footnotes of the amortized cost amounts of such items.

- (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?**

No. Refer to our responses to (a) and (b), above.

**Accounting for the time value of options for cash flow and fair value hedges
(paragraphs 33, B67-B69 and BC143-BC155)**

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 (i.e. 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?

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 (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?

Yes.

**Hedges of a group of items
(paragraphs 34-39, B70-B82 and BC156-BC182)**

**Eligibility of a group of items as the hedged item
(paragraphs 34, B70-B76, BC163, BC164 and BC168-BC173)**

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, we agree with the following criteria:

A group of items (including a group of items that constitute a net position) is an eligible hedged item only if:

- (a) it consists of items (including components of items) that individually are eligible hedged items;
- (b) the items in the group are managed together on a group basis for risk management purposes; and
- (c) for the purposes of cash flow hedge accounting only, any offsetting cash flows in the group of hedged items, exposed to the hedged risk, affect profit or loss in the same and only in that reporting period (including interim periods).

This would recognize that natural offsetting hedges may exist in portfolios and afford entities the opportunity to manage its risk by offsetting risk positions in combination with hedging instruments.

Presentation

(paragraphs 37, 38, B79-B82 and BC174-BC177)

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 item? Why or why not? If not, what changes do you recommend and why?

Yes, we believe that this avoids the problem of distorting gains or losses and that separate presentation in other income or other expenses of the net effects of the hedging instrument gains or losses is appropriate if supported by footnote disclosures.

Disclosures

(paragraphs 40-52 and BC183-BC208)

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 we generally agree, although we are concerned that the proposed disclosures could be too detailed for users and would encourage that IASB to consider further refinement to meet the disclosure objectives in consultation with the more sophisticated users of Bank's financial statements.

- (b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?**
None additional are necessary in our view.

**Accounting alternatives to hedge accounting
(paragraphs BC208-BC246)**

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. This would align the accounting with risk management.

**Accounting for credit risk using credit derivatives
(paragraphs BC219-BC246)**

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?**

No, we currently have loans where we have elected the fair value option under US GAAP for which we have purchased credit default swap protection. We believe that this hedging technique is not overly complex and it is operational.

- (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 believe that alternative 2 is a suitable approach:

- (i) to elect fair value through profit or loss at initial recognition or subsequently (if subsequently, the difference between the then carrying amount and fair value is recognized immediately in profit or loss);
- (ii) to designate a component of nominal amounts; and
- (iii) to discontinue fair value through profit or loss accounting.

Our interpretation of this approach is that for a bond, loan or loan commitment already held (that has previously experienced credit deterioration) at the time the credit hedge is put in place, the entity would recognize the fair value adjustment of that financial instrument immediately in profit or loss. Any impairment reserve relating to credit would be reversed at that time.

**Effective Date and transition
(paragraphs 53-55 and BC247-BC254)**

Question 16

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

Yes, we agree that the proposed requirements for hedge accounting be applied prospectively.

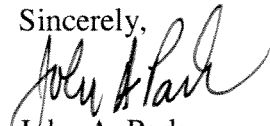
The IASB has proposed an effective date for annual periods beginning on or after 1 January, 2013 with earlier application permitted.

Because the existing hedging relationships that exist upon adoption will all need to be reassessed as part of the transition proposal, we believe that more time will be needed for entities to conduct and redocument each relationship to ensure that they will continue to qualify as continuing hedging relationships.

We have previously commented to the IASB and the FASB on Effective Dates and Transition, and recommend that the effective date of this standard be aligned with the effective date of the FASB's Financial Instruments proposal. As the effective date has not yet been determined by the FASB, we encourage both boards to coordinate the effective date and the transition requirements before each standard is finalized. We believe that the effective date should be no sooner than fiscal years beginning after December 15, 2014 (or annual periods beginning on or after 1 January, 2015).

Thank you for considering our comments regarding the Exposure Draft. If you have any questions or require further information, please contact me at 212-635-7080 or Ross Brown at 212-635-7023.

Sincerely,



John A. Park
Controller