



Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

March 9, 2011

Exposure draft Financial instruments: "Hedge Accounting"

Dear Sir David,

We welcome the opportunity to provide comments on the above Exposure Draft on behalf of L'Oréal.

We focus our answers on the questions based on our group issues.

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

We fully agree with the fact that "the objective of hedge accounting is to represent in the financial statements the effect of an entity's risk management activities that uses financial instruments to manage exposures arising from particular risk that could affect profit or loss". This perfectly corresponds to our view of hedge accounting: in our group, the aim of our hedging policy is to guarantee the operational result of all entities by systematically hedging their overall FX risk related to the following budget year. The objectives of this hedging policy are to secure the P&L account by locking in FX rates as set up when budgets are prepared and to secure the forecast results through a hedging policy for the coming year.

Nevertheless, we would recommend following this objective completely and consequently allowing to measure efficiency of hedge accounting over the same period of time as the one used by management in its risk management policy.

Question 6

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

We welcome these proposals because they are consistent with the new proposed objective of hedge accounting. We are indeed convinced that there should be a consistency between the business model of the entity and the efficiency test used. In our case, for instance, the performance of the entity is annual. Therefore, we consider the test must be based on an annual method with efficiency tests based on volume of currencies. We welcome the fact that hedge effectiveness tests become less restrictive.

Question 7

a) Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?

We agree with this principle. We understand that rebalancing is the consequence of hedge effectiveness assessment in relationship with the hedging strategy of the entity.

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 this principle.

Question 8

a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?

We agree with this principle.

b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

We agree with this principle.

Question 9

- a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?

We do not consider it is useful to book firstly in OCI the fair value gain or loss of the hedged element and the hedging instrument with ineffectiveness transferred into P&L, because we do not think it gives more pertinent information to the readers of the financial statements nor to management.

Moreover, it would necessitate a new parameterization of our IT accounting systems: up to now, all items in foreign currency are re-valued at the closing rate and this conversion difference goes to P&L not to OCI. In other words, we consider that the cost induced by such a parameterization will exceed benefits.

- b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?

We do not support the creation of additional lines in the face of the statements of financial position because we consider it will not make the reading of the statement easier; on the contrary, it will be cumbersome. This information could be presented in the notes to the financial statements.

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 capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why
- b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why
- c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (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?

We thank the Board for taking into consideration the concern expressed by companies like ours. Non efficiency of time value of the hedging instruments we use introduces indeed volatility in our P&L. Time value is known at inception of hedging instruments. In some cases, when market conditions move substantially, the time value variation as reflected in the

marked to market valuation may represent an economic inconsistency. Moreover, it is highly difficult to properly forecast time value for a given period.

That is why we share the view that a purchased option is similar to an insurance contract. We also consider that the interest element in a forward contract should be treated the same way as the time value of option. We recommend adding it formally in the new standard.

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 principle of hedging a group of hedged items but do not support the restriction in cash flows hedged accounting (criterion c)) that results in imposing that any offsetting cash flows in the group of hedged items exposed to the hedged risk affect P&L in their entirety in the same reporting period, including interim period.

We would like the Board to take into consideration the fact that some industries, such as ours, manage their business/forecasts annually, and not by reporting period. The economic model in our group is to forecast and guarantee an annual result (permanent statement of management). Our hedging strategy is built on this economic model.

In our group indeed, every year, plants set up their cost of goods based on sales forecast from their customers and each entities defines the volumes of FX risk to be hedged. Hedging instruments are then set up. We are convinced that a tight management of FX risk lies on probable currency flows forecast. Forecasts/trends and realized volumes of risk are regularly reported through a highly sophisticated reporting tool that has been implemented in all our entities. The efficiency of the hedges is measured through ratios which compare the hedged volumes with the volume of risk on an annual basis.

In order to keep complete consistency of the business model of the entity and its accounting, we urge the Board to reconsider its preliminary decision and allow entities whose business model is managed annually to align cash-flow hedge accounting with the risk management policy. As a result, any offsetting cash flows in the group of hedged items could affect profit in the same fiscal year and should not be restricted to an interim period.

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 recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?

We do not agree with this proposal. Such information is already detailed in the notes to the consolidated accounts.

We believe that more flexibility should be given to entities to present the impact of hedging gains or losses on instruments recognized in the P&L and that a presentation in only one line should not be imposed to all companies.

We consider indeed that as accounting for hedges should be consistent with the company's risk strategy, the presentation in the P&L of the impact of the hedging instruments should also be consistent with the way management follows and presents those impacts in terms of financial communication. The readability of our accounts would be more complex and not facilitated at all with such requirements.

In our group, we have developed an IT tool that enables us to follow the effect of gains & losses on hedging instrument by nature of hedged item (sales / COGS / R&D/ Advertising etc...), e.g. by gross amount hedged. As a result, even if we use net position hedge, we are able to allocate the impact of hedging instruments gains & losses by nature, eg on the different lines of the P&L. Moreover, we are convinced that allocating the impact of hedging instruments gains & losses on the different concerned lines of the P&L is more pertinent for users.

In such a case, while the information is available, can be audited and gives sense to the way financial statements are read, we consider that companies should have the choice to present the P&L impacts of hedging instruments according to what is most pertinent for the user of the financial statements, e.g. give them the possibility to present the impacts on the different lines of the P&L.

Question 13

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

We agree with the disclosure requirements about the risk management strategy and its consequences on the financial statements because we consider that such information is consistent with the new objective proposed by the Board to link hedge accounting with the hedging strategy of the entity and is pertinent for users.

However, we believe that more room should be left for judgment in selecting the information which is really useful to disclose and pertinent for the users.

Should you have any question on the content of this letter, please do not hesitate to contact me (e-mail address: cmulliez@dgaf.loreal.com – tel. + 33 1 47 56 81 12).

Yours faithfully,



Christian Mulliez
Executive Vice President
Administration and Finance