



MEYERS NORRIS PENNY LLP

March 1, 2011

International Accounting Standards Board  
1<sup>st</sup> Floor  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Hedge Accounting Exposure Draft**

Thank you for the opportunity to comment on the above noted document. We have reviewed the Exposure Draft and have provided comments below.

Overall, we agree with the International Accounting Standards Board's (IASB) proposal to significantly amend the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. We support the IASB's principal objective to closely align an entity's risk management strategy with the application of hedge accounting. However, we wish to bring to your attention our comments relating specifically to your query as follows:

1. ***[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 that an aggregated exposure may be designated as a hedged item. However, we envision entities having difficulty in identifying such potential relationships and practically applying the hedge accounting requirements to such complex relationships. Therefore, we encourage the IASB to include some practical examples of aggregated exposures in the proposed standard.

2. ***[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 agree with the proposed hedge effectiveness requirements to qualify for hedge accounting. Specifically, we support the replacement of the "bright line" rule of 80-125% offset with hedge effectiveness requirements that are linked to an entity's risk management strategy. We believe, however, that the concept of "accidental offsetting" is open to a variety of interpretations, and would suggest that the IASB consider providing a definition, and examples, of accidental offsetting. Further, we also suggest that the guidance in IFRS 9 provide definitions of "critical terms" and "closely aligned" as discussed in paragraph B34 and B36 of the exposure draft.

3. ***[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 concept of “rebalancing” as a whole. However, we suggest that the IASB provide guidance concerning whether there are any restrictions in applying proactive rebalancing based on the length of time between the rebalancing and the change in circumstance expected to affect the hedge’s effectiveness. We also encourage the IASB to provide examples of circumstances where proactive rebalancing may be appropriate to assist with application of this concept.

4. ***[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?***

In general, we support the IASB’s solution to the “mixed measurement” problem for hedged items. However, we are concerned that the proposed presentation requirement (i.e., presenting a separate line item for the gain or loss on each hedged item on the statement of financial position) may in fact reduce the usefulness of this statement through the increase in volume of information presented.

We suggest that a disclosure alternative be offered, which would allow the preparer of the financial statements to present, on the statement of financial position, one single line which aggregates the net gain or loss on all hedged items. The detailed information linking the gains or losses to each hedged asset or liability may then be presented in note disclosure, thereby reducing congestion on the statement.

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

In general, we agree with the IASB’s decision to focus the disclosure requirements for hedge accounting on the entity’s risk management activities rather than on the accounting for hedging relationships. However, we have concerns that some of the required disclosures may result in some entities electing not to apply hedge accounting.

Paragraph 46 of the exposure draft requires an entity to disclose the quantity or monetary amount of each risk exposure; the extent to which the exposure is being hedged; and how hedging has impacted the exposure. We believe that this requirement could result in disclosure of commercially sensitive information and is therefore a disincentive to adopting the hedge accounting standards.

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

Additional disclosures we believe would provide useful information to users include:

- Disclosure of other hedging relationships entered into by an entity to which hedge accounting is not applied. These other hedging relationships comprise a part of the entity’s overall risk management strategy and should be communicated to financial statement users.
- Disclosure on rebalancing to inform financial statement users of the effectiveness of an entity’s risk management strategy. This disclosure should describe the reasons why rebalancing was required and the consequences of that rebalancing.
- Disclosure of the nature of any estimation uncertainty related to management’s assumptions surrounding proactive rebalancing.

7. ***[Question 16] Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?***

The Exposure Draft indicates that these new hedge accounting standards will be applied prospectively for annual periods beginning on or after January 1, 2013, with earlier

application permitted. The IASB may need to consider whether this January, 2013 effective date is in line with any changes to standards resulting from responses to the recent IFRIC Request for Views, *Effective Dates and Transition Methods*.

Lastly, we would like to encourage that the proposed standard include practical application guidance for those entities applying these requirements. Such guidance will assist with ensuring consistent application of the hedge accounting requirements.

On a related note, we would like to make a general comment regarding the financial instruments project as a whole. While we understand the magnitude of the financial instruments project, we are having difficulty visualizing the sufficiency of the final IFRS 9 standard after reading the related exposure drafts over an extended period of time. We eagerly anticipate the release of an exposure draft of the comprehensive final standard once all phases have been completed in order to allow us to conceptualize how the various principles will fit together.

We are pleased to offer our assistance to the International Accounting Standards Board in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

Meyers Norris Penny LLP (MNP) is one of Canada's largest chartered accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations and municipalities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

**MEYERS NORRIS PENNY LLP**

*Jody MacKenzie*

Jody MacKenzie, CA  
Vice President, Assurance Professional Standards

