

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

Madrid, 9th March 2011

Dear Sirs,

Re: Exposure Draft Hedge Accounting.

Ferrovial welcomes the opportunity to respond to the exposure draft on Hedge Accounting (the ED). We would also like to thank the Board for its outreach activities in this area, which we were able to take advantage of in our meeting in the first week of March.

We acknowledge the efforts the Board has made in order to modify hedge accounting so that it better reflects the risk management model of the entity. However we would appreciate the introduction of additional changes in order to reduce the complexity in reporting of financial instruments and to eliminate the mismatch and distortion in the case of non financial institutions when derivatives linked to debt instruments are measured at fair value, but the assets that this debt is financing are not carried at fair value (e.g. concession contract according to IFRIC 12, financed by a debt instrument linked with a derivative).

Attached you can see our detailed response to the specific questions and other additional comments.

As a way of executive summary, please find below our main concerns:

1. Main concerns on the current model of hedge accounting proposed in the ED:

- Inflation hedging

In our point view, it is not consistent with a principles-based approach an unfair to prohibit with a rule specifically the designation of inflation as a hedged risk component of a financial instrument (paragraph B18) when there is a general principle established in paragraph B13 and B15 to conclude if a risk component can be eligible for designation as a hedged item. We would appreciate if the final version of the standard do not prohibit to designate inflation in every case that it is not contractually specified, in our view it should be allowed for those cases where the inflation component of a financial instrument can be separately identifiable and reliably measurable according to the conditions of the specific conditions of a financial market (e.g. in UK where the government issues, in a regular basis, gilts in real and nominal rates). Please, see further explanation in our answer to question 4.

- Hedging interest rate risk with a step-up swap

Step-up swap is an interest rate swap agreement with an increase in the fixed rate on one or more dates over the life of the swap.

In the existing literature there are only two examples about the hypothetical derivative and these two examples, the pay leg (fixed rate) of the hypothetical derivative is calculated as the embedded fixed rate in the forward curve at inception.

If the hypothetical derivative to be considered in the effectiveness test has to be the one with a pay leg equal to the fixed rate in the forward curve, in that case some ineffectiveness will have to be recognised. In our view, no ineffectiveness should be recorded as the step-up swap is 100% effective in eliminating the interest rate risk.

We would appreciate additional guidance or an illustrative example of a step-up swap could be considered in the final IFRS. Please, see further explanation in our answer to question 17.

- Credit risk in the hypothetical derivative

If there is a perfect critical terms match between the hedge item and the hedging instrument, the interest rate risk is eliminated and as a consequence changes in the credit risk should not be a source of ineffectiveness.

We would appreciate additional guidance on the use of the hypothetical derivative as the existing illustrative examples or those considered in the due process are quite similar and someone could misinterpreted it and consider it as a prescribed methodology. Please, see further explanation in our answer to question 18.

- Highly probable requirement in hedge accounting of a forecast transaction

We consider that the highly probable threshold it is very restrictive (is one of the highest restrictive threshold in the IFRS literature) and prevents hedge accounting from being achieved in a forecast transaction when exposures are long dated. We would appreciate a different definition for some forecast transactions. Please see further explanation in our answer to question 19.

- Qualitative assessment if critical terms matches

We would appreciate if paragraph B34 explicitly states that when the critical terms remains closely aligned, any quantitative assessment is not needed, and as a consequence no ineffectiveness calculation will be neither needed. Please see further explanation in our answer to question 6.

2. Accounting model for derivatives linked to loan agreements for the purpose to adjust financing cost:

Finally, in the case of certain type of derivatives, where the hedging relationship is straightforward, as they are contracted separately but are linked to a financing contract with the sole purpose of adjusting the conditions of the financing, like an Interest Rate Swap that is linked to a variable rate loan that turns the loan into a fixed interest loan or

index linked swap combined with a fixed rate bond that results in a inflation linked bond, more decision-useful information would be provided for users if they were accounted together with the hedged debt instrument as a single financial instrument at amortised cost, instead of applying fair value.

The obligation to measure these derivatives at fair value introduces high volatility into equity of the companies concerned, and it does not contribute to represent a true and fair view of the companies as the instruments are not held for trading but are held to maturity linked to the loan in order to adjust the interest cash-flows of the loan.

We would like to point out the effects of this decision to measure all derivatives at fair value, in the case of non-financial institutions where there is an accounting mismatch and distortion, as the assets that this debt is financing are not carried at fair value (e.g. a concession contract according IFRIC 12 that is financed by a debt instrument linked with a derivative).

In our view, in those cases, the financial statements do not provide the best information for users and non-GAAP disclosures and additional information is needed.

Additionally the application of fair value measurement generates quite different treatments for economically equivalent transactions, depending on how the transaction is structured; although the impact on cash is the same. We think this is the sort of inconsistency that makes information about financial instruments difficult for users to understand.

Please see further explanation in our answer to question 20.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Ernesto', with a stylized flourish at the end.

Ernesto López Mozo