

March 9, 2011

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

File Reference: Exposure Draft: *Hedge Accounting*

Dear Sir David Tweedie:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Exposure Draft: *Hedge Accounting* (ED). ABA represents banks of all sizes and charters and is the voice for our nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities.

Portfolio Level Hedge Accounting Issues Must be Addressed.

ABA strongly supports the efforts of the IASB to simplify accounting for hedging strategies. While we are pleased with the overall direction that IASB has taken to better address how specific risk management activities of a bank are reflected, we are, nevertheless, disappointed that the Board has not yet elected to address portfolio level (macro) hedging. This has been a significant concern of the banking industry for many years, initiated by the ABA with the Financial Accounting Standards Board (FASB) during its original deliberations on Statement of Financial Accounting Standards No. 133. The lack of macro hedging guidance within the ED made the evaluation of the proposed hedging concepts challenging, especially because macro hedging is a key part of risk management at many banks. In light of this, our comments and recommendations should be viewed as tentative, because it is very possible that our comments will change as macro hedging is eventually addressed. We encourage the Board to expeditiously address this critical aspect of risk management operations.

Convergence with GAAP is Needed.

ABA supports efforts by the Board to address accounting for hedging activities, but we are concerned that the resulting standards will not provide for convergence with Generally Accepted Accounting Principles in the United States. The ED appears to take a very different approach from the FASB for the hedge accounting-related proposals within the FASB exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedging*. FASB has since issued the *Invitation to Comment: Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting)*. Therefore, our responses herein are qualified to the extent that they are further elaborated in our response to FASB's *Invitation to Comment*.

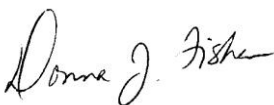
Clarification is Needed Regarding the Hedge Ratio.

ABA supports the simplification of hedge effectiveness requirements, including the elimination of the onerous 80-125 per cent “bright line” to qualify for hedge accounting. However, we are concerned the ED’s requirement to produced an “unbiased result”, and in particular the need to establish and rebalance to the “optimal hedge ratio”, will not simplify hedge effectiveness. Depending on how the emphasis on the hedge ratio is interpreted, we foresee many cases in which the burden to perform detailed quantitative analysis (e.g. regression) to support hedge effectiveness will not change. Furthermore, the obligation to rebalance the hedging relationship would add additional operational burden, as well as additional hedging costs (e.g. hedge breakage fees, etc.).

The observations above may have been unintended, or perhaps we have not fully understood the mechanics required by the hedge accounting concepts proposed within the exposure draft. With this in mind, noting that the examples provided in the ED mainly apply to hedging of commodities, we recommend the Board supply further examples on how these new requirements would work for hedges that are more applicable to financial service industries, such as using LIBOR swaps to hedge prime based loans, or other similar types of hedges.

While we have addressed our major concerns above, on the attached pages, ABA provides responses to many of the various questions posed in the ED. Thank you for your attention to these matters and for considering our views. Please feel free to contact Mike Gullette (mgullette@aba.com; 202-663-4986) or me (dfisher@aba.com; 202-663-5318) if you would like to discuss our views.

Sincerely,

A handwritten signature in cursive script that reads "Donna J. Fisher".

Donna J. Fisher

ABA RESPONSES TO CERTAIN QUESTIONS POSED WITHIN THE EXPOSURE DRAFT

OBJECTIVE OF HEDGE ACCOUNTING

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?

Response: ABA agrees the objective of hedge accounting is to represent in the financial statements the effect of an entity's risk management activities. Given that objective, however, the exposure draft (ED) specifically excludes addressing risk management activities performed at a portfolio level (macro hedging), which is a critical aspect of hedging activities. While we support the overall direction of proposals in the ED, we believe that without the consideration of macro hedging, the ED falls short of adequately addressing the objective.

Further, we recognize that the ED prohibits hedge accounting for equity investments designated at fair value with changes recorded through other comprehensive income. While this does not significantly impact most banking institutions, we believe the ED also falls short of its objective regarding these positions.

Lastly, we also note that the mandatory requirement to rebalance hedges to the optimal hedge ratio is inflexible and tends to contradict the dynamic nature of risk management.

DERIVATIVES THAT QUALIFY FOR DESIGNATION AS HEDGED ITEMS

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?

Response: ABA agrees that entities should be allowed to designate risk components as hedged items in a hedging relationship, as this reflects how risk management activities are often performed.

DESIGNATION OF RISK COMPONENTS AS HEDGED ITEMS

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?

Response: ABA agrees that entities should be allowed to designate risk components as hedged items in a hedging relationship, as this reflects how risk management activities are often performed.

DESIGNATION OF A LAYER COMPONENT OF THE NOMINAL AMOUNT

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?

Question 5(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?

Response: ABA agrees that layers of a nominal amount should be allowed to be designated as hedged items as this reflects actual strategies that entities use to address certain uncertainties in anticipated transactions.

While ABA understands the Board's basis for excluding as a hedged item the layer components of a contract that includes a prepayment option, we believe that as the Board examines hedge accounting for macro hedging strategies, these specific circumstances should be addressed.

HEDGE EFFECTIVENESS REQUIREMENTS TO QUALIFY FOR HEDGE ACCOUNTING

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?

Response: ABA agrees with the general direction the Board is proposing related to hedge effectiveness requirements. However, we believe that more guidance is required in order to ensure that concepts such as "hedge ratios" and "unbiased results" are sufficiently understood so that in practice, the objectives the Board seeks from revising the hedge effectiveness requirements are achieved. We believe that without such clarification, the cumbersome quantitative analyses required today may not be alleviated, but merely changed and quite possibly increased. We interpret the proposal to possibly require a 100% effective hedge based on the determined hedge ratio. We do not believe this to be within the intended outcomes the Board seeks to achieve.

REBALANCING OF A HEDGING RELATIONSHIP

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?

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?

Response: Subject to the problems we noted in question 6 related to the hedge ratios and unbiased results, as well as our recommendation that the Board should address macro hedging, ABA agrees that a rebalancing is required when the hedging relationship fails to meet the objective of the effectiveness assessment. We believe, however, that since many organizations manage risk at a portfolio level, many changes arising from substitutions and rebalancing at a portfolio level will appear arbitrary on an instrument level. Furthermore, risk management objectives change over time and the requirement to manage to a pre-defined hedge ratio seems to contradict the dynamic nature of risk management.

DISCONTINUING HEDGE ACCOUNTING

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?

Question 8(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?

Response: The same issues noted in question 7 are applicable here.

ACCOUNTING FOR FAIR VALUE HEDGES

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?

Response: While we support simplifying how different hedge accounting strategies are recorded, we do not support recording the hedge gain or loss in other comprehensive income without first developing a conceptual basis for recording items in other comprehensive income. In other words, the various items recorded in other comprehensive income (not merely relating to hedge accounting) should have consistent meaning as to what they represent. Such a conceptual framework would also include the basis for recycling or non-recycling.

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?

Question 9(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?

Response: We do not support separately presenting accumulated hedge gains and losses in the financial statements as we believe this will have little meaning to users, who will refer to disclosures in order to

determine their meaning. As a result, we recommend that these amounts be reflected only in disclosures.

HEDGES OF A GROUP OF ITEMS

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?

Response: ABA agrees with these criteria as they generally reflect how entities manage risk in these situations.