

March 9, 2011

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

Re: Exposure Draft - Hedge Accounting

Dear Sir David:

International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the proposed standard, *Hedge Accounting* (the "exposure draft" or the "proposed standard").

IBM's global capabilities include services, software, systems, fundamental research and related financing. The company operates in multiple functional currencies and is a significant lender and borrower in the global markets. Resulting exposures are mitigated through the use of derivatives and other risk management procedures. Therefore, although the company is not a financial services institution, it will be significantly impacted by the proposed standard.

We generally support the Board's decision to undertake this project to simplify the accounting requirements and to resolve practice issues that have arisen under the current guidance. The resulting exposure draft more closely aligns the accounting with a corporation's risk management activities. However, we are disappointed with the lack of convergence between the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB"). Financial instruments are a key component of the joint projects initiative under the Boards' Memorandum of Understanding (the "MoU"). However, the hedging exposure draft diverges in many significant respects from the guidance proposed by the FASB. We believe it is imperative that the FASB and IASB focus on developing a single converged financial reporting model for hedging. Failing to accomplish that will create an unlevel playing field between IFRS and US GAAP filers and will exacerbate comparability for financial statement users. Furthermore, it will likely lead to other issues, including the potential of multiple implementations for US GAAP filers if they are required to adopt IFRS in the future. Overall, we support the IASB's willingness to move further than the FASB towards reducing the complexity associated with the current hedge accounting model and extending eligibility regarding what items can qualify for hedge accounting and what instruments can be designated.

In view of the difficulties experienced by preparers in applying hedge accounting, we support the IASB's efforts to simplify accounting for hedging activities, including the effectiveness testing requirements. However, we believe that the proposed changes will create interpretive issues with the elimination of the bright line test of 80-125

percent, but no specific guidance on when a quantitative assessment would be required. Without additional guidance, there may be an implicit requirement for preparers to perform quantitative assessments to avoid “second guess” risk or to prove the qualitative assertions. We believe the final standard should explicitly remove the quantitative analysis from the determination of hedge effectiveness. A qualitative-only approach will be more effective in determining effectiveness by applying a company’s existing risk management procedures and by further simplifying the hedge accounting model. We believe that current corporate governance and risk management procedures should be sufficient to qualitatively ensure that hedging programs are reasonably effective.

We disagree with the proposed change in accounting for fair value hedges. It is our understanding that the Board’s intent was to consistently apply the same accounting for derivatives in all three hedging relationship types under the proposed model. However, we believe that the accounting for derivatives should follow the basic model (i.e. fair value through earnings) unless a change in accounting is required, such as under cash flow hedges of forecasted transactions in order to ensure an offset in earnings at the time the transaction occurs. We also note that this proposed change in accounting represents another divergence from the FASB’s proposed model.

Further, we do not view the ability to de-designate hedging relationships to be problematic or an area of abuse under the current model. Hedge accounting by its nature is elective and, therefore, the ability to discontinue it is consistent with this notion. The objective of dynamic hedging strategies is to promote effective risk management by ensuring the hedging relationship contemplates the changing economic conditions of the hedged item. Additionally, the proposal is unclear as to whether net investment hedges are affected by the elimination of voluntary de-designations. Due to the nature of the underlying, net investment hedges often involve strategies that include de-designation and re-designation of both derivative and non-derivative instruments. Accordingly, we believe the final standard should specifically exclude net investment hedges from the prohibition against de-designation/re-designation strategies.

It is our understanding that the Board introduced the concept of re-balancing to avoid the potential abuse by companies through deliberate under-hedging of a cash flow transaction. We believe that the FASB approach of requiring the recognition of ineffectiveness for both under- and over-hedges in cash flow hedge relationships meets the same goal without requiring another complex analysis. In our view, the goal of simplification and transparency is not achieved if the effectiveness assessments are replaced by re-balancing analyses that may prove to result in far more complex assessments and accounting treatment.

In line with the Boards’ joint project on the Statement of Comprehensive Income, we believe that hedge accounting should not distinguish between income statement and other comprehensive income as one of the hedging criteria, i.e. hedging should be

available whether the risk exposure has an impact on earnings or on other comprehensive income. This would further support the view that the income statement should be looked at in combination with other comprehensive income, whether in one single statement or in two consecutive statements.

If you have any questions about our comments or wish to discuss any of the issues raised in this letter please contact Gregg Nelson at +1 914 766 3190, Aaron Anderson at +1 914 766 3610 or Joerne Schroedter-Albers at +1 914 766 3678.

Sincerely,

Gregg Nelson  
Vice President of Accounting Policy & Financial Reporting