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09 March 2011

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

Email: commentletters@iasb.org

Dear Sir

EXPOSURE DRAFT ON HEDGE ACCOUNTING

Sappi Limited is pleased to comment on the International Accounting Standards Board (the "IASB" or the "Board")'s Exposure Draft on Hedge Accounting (the "ED").

Our primary basis of reporting is International Financial Reporting Standards (IFRS), but we are required to comply with certain filing requirements of the Securities Exchange Commission (SEC) in the United States of America due to our listing on the New York Stock Exchange. We therefore are encouraged by the Board's commitment to simplify the accounting for financial instruments as well as the Board's current projects in converging IFRS with US GAAP. We would also like to encourage that convergence should not merely occur for the sake of convergence, but should also produce higher quality financial statements than those that would result from applying the two frameworks separately.

We would like to thank you for the opportunity to provide comments on this document. Our detailed responses to the invitation to comment questions are included in Appendix A.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Moses Sekgobela
Group Reporting Manager

SAPPI LIMITED SUBMISSION ON THE EXPOSURE DRAFT – HEDGE ACCOUNTING

Appendix A: Invitation to comment

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 agree with the proposed objective of hedge accounting as it is important for our company to reflect the effectiveness of our risk management strategy in our results and cash flows.

In the past IFRS hedge accounting rules prevented entities from taking decisions in line with their strategies as they were always confronted between the difficult choice of avoiding income statement volatility and maximising cash flows on one hand, and applying the most suitable hedging instrument and at the same time maintain the necessary flexibility to adjust our strategy in case business restructuring occurs.

Question 2

Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?

We agree with this proposal, as it contributes to more consistency and less complexity in the standard.

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 with this proposal, as in the past under the current rules we were prevented from applying hedge accounting to such exposures.

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?

We welcome this proposal as this will allow our group to designate risks such as commodity risk components as valid hedged items. Under the current rules we cannot apply hedge accounting for these types of specific risks and in consequence we were prevented from taking the correct economic hedging decisions.

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?

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We agree to this proposal because our risk management policy includes this type of structures and therefore this possibility will offer greater flexibility to apply hedge accounting.

(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?

We agree with this proposal if the hedging instrument would not include a similar prepayment option. If however the hedging instrument, includes a similar prepayment option, the change in value of the prepayment option owing to the hedged risk in both the hedged item and hedging instrument would offset each other.

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 as it would be more in line with the company's risk management policy.

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 that re-balancing of the hedging relationship should be possible. However we would also expect that the fact of failing the objective of the hedge effectiveness assessment would be fully based on the company's risk management policy and not for instance on the outcome of the absolute fair value result to be booked in Other Comprehensive Income.

(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 to this proposal as it would be in line with the risk management policy of the reporting entities.

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 that hedge accounting should be discontinued only prospectively (not retrospectively) if the hedging relationship no longer meets the qualifying criteria. Any

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retrospective ineffectiveness deferred in equity should be amortized to the income statement over the remaining hedging period.

We understand that an entity should only perform prospective testing (at inception and on an ongoing basis), so this approach is therefore consistent.

(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 do not agree with this proposal, as we consider that maximum flexibility should be allowed as long as the underlying reasons for certain decisions are well explained and documented in the disclosures of the financial statement in order to make sure that the readers of the financial statement understand the impact and the background of these decisions.

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 agree to this proposal, as the ineffectiveness booked to profit and loss results in the same net effect on the income statement.

(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 agree to this proposal. However how would the separate line item viewed in isolation be qualified, as it does not represent any effective asset or liability, especially if the hedged item concerns a firm commitment which has not yet been registered on the balance sheet?

(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?

We do not agree to this proposal as we feel that linked presentation for fair value hedges should be allowed but detailed disclosure requirements should be required to explain the linked presentation.

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?

We agree to this proposal as the option's time value relating to the hedge of a (future)

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transaction should be reclassified similarly to the treatment in this respect of a cash flow hedge.

(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?

We agree to this proposal as it would be consistent that the option's time value relating to the hedge against a risk over a particular period be amortized over that specific period.

(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 agree to this proposal as it is consistent with the general rules of hedge accounting.

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 to this proposal because many entities have central treasury functions which would hedge group risks on a net notional basis.

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 agree to this proposal as it avoids grossing up the income statement.

Question 13

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

We agree to the additional disclosure requirements, as given the additional flexibility allowed under the newly proposed rules, further disclosure regarding the group's risk management policies and procedures are necessary in order to measure the effectiveness of the entity's risk management strategy.

(b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?

Please see our reply on questions 8b and 9c which would imply additional disclosures.

As a general comment we would welcome a more standardised format or framework for

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disclosures reported under IFRS 7. This is especially applicable for the additional requirements with respect to the risk management policy. This would enhance uniform and correct application amongst entities, simplify things for external auditors and also allow better comparison between entities and accounting periods.

Question 14

Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?

We would agree to this proposal, as this accounting treatment is solely driven by the risk management strategy and resulting policy.

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

We do not think that any of the three alternative accounting treatments would add more complexity, as long as the accounting treatment is applied consistently in line with comparative hedge accounting scenarios.

(b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

We feel that alternative 3 should be further developed, as it is consistent with the rules applying for hedge accounting. This alternative offers an entity the flexibility in starting and stopping the fair value option in line with the entity's risk management policy.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

The fact that entities will have to apply the proposals to all existing hedging relationships in order for them to be regarded as continuing hedging relationships implies that the existing hedging relationships should be aligned to the risk management objectives valid on the date of transition. However as these hedges might date back to very early periods when other risk management objectives were in place, some unexpected consequences may ensue. Therefore we feel that special provisions should be inserted to avoid having to discontinue hedge accounting as a result of this alignment.