

Siemens AG, CF R, Wittelsbacherplatz 2, 80333 Muenchen

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Name	Dr. Klaus Patzak
Department	CF R
Telephone	+49 (89) 636-36460
E-mail	klaus.patzak@siemens.com
Date	March 9, 2011

Exposure Draft ED/2010/13 Hedge Accounting

Dear Sir David,

Siemens Aktiengesellschaft welcomes the opportunity to comment on the Exposure Draft ED/2010/13 Hedge Accounting.

Siemens as a globally operating, integrated technology company is delighted to present its views on the exposure draft. Generally, we agree with the new proposals regarding hedge accounting presented in the exposure draft.

Nevertheless, we would like to seize the opportunity to provide some general remarks concerning issues that have not been addressed by the exposure draft. Under the current IAS 39, Siemens has not been able to apply hedge accounting in certain circumstances, and we believe that some of the new proposals expressed in the exposure draft will improve that situation, e.g. the permission that risk components may be designated as hedged items under specific conditions. The proposal would allow Siemens to apply hedge accounting to risk components of commodities, something vital for an industrial company.

Despite the improvements, we regret that regulations on portfolio hedge accounting have not been addressed in the exposure draft. To familiarize you with our issue related to portfolio hedging, please allow us to describe our situation in more detail: the Siemens group has an open portfolio of fixed-interest-bearing loans and leasing receivables with external counterparties. Siemens' centralized

Siemens AG
Corporate Finance
Management: Joe Kaeser

Wittelsbacherplatz 2
80333 Muenchen
Germany

Tel.: +49 (89) 636 00
Fax: +49 (89) 636 34242

Siemens Aktiengesellschaft: Chairman of the Supervisory Board: Gerhard Cromme;
Managing Board: Peter Loescher, Chairman, President and Chief Executive Officer; Wolfgang Dehen, Brigitte Ederer,
Joe Kaeser, Barbara Kux, Hermann Requardt, Siegfried Russwurm, Peter Y. Solmssen
Registered offices: Berlin and Munich, Germany; Commercial registries: Berlin Charlottenburg, HRB 12300, Munich, HRB 6684
WEEE-Reg.-No. DE 23691322

treasury department hedges this portfolio based on value-at-risk limits against the risk of changes in interest rates using derivatives with external counterparties (mainly interest rate swaps and interest rate futures). Siemens' individual business units at which the loans and leasing receivables with external counterparties originate fund themselves via the centralized treasury department. In accordance with Siemens' risk management strategy, the external portfolio of loans and leasing receivables is, for the purpose of risk management activities, represented by the internal positions consisting of the funding extended to the individual business units. Siemens considers this internal portfolio to be a valid approximation of the external portfolio because the internal policies result in clearly-defined and well-established processes that ensure the business units employ matched funding with regard to both currency as well as tenor. In our opinion, both the organizational structure (centralized treasury department) as well as the resulting processes (external hedging instruments entered into by an entity on the basis of an open portfolio consisting of internal transactions acting as placeholder for external transactions) described above are common if not prevalent among financial services institutions.

At this point in time, Siemens does not apply hedge accounting, neither to any of the transactions contained in the portfolio on an individual basis nor to the complete portfolio on a portfolio basis. In our view, the application of hedge accounting to the above-mentioned open portfolio would result in relevant information to users of financial statements. Therefore, Siemens recommends establishing a comprehensive framework with regard to hedge accounting applicable to open portfolios to be included in the final standard.

The annex to our letter includes comments to the questions listed in the exposure draft as well as a proposal for hedge accounting of open portfolios.

Should you have any questions or wish to discuss any of the issues in more detail, please do not hesitate to contact Dr. Nikolaus Starbatty (nikolaus.starbatty@siemens.com, phone +49 89 636 36371).

Sincerely yours,

Siemens Aktiengesellschaft

ppa. Dr. Klaus Patzak
Corporate Vice President and Controller

ppa. Dr. Elisabeth Schmalfuß
Head of Accounting and Controlling Policies

Annex

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?

In general, we agree with the decision of the Board to focus on a company's risk management strategy and understand that this approach will foster the application of hedge accounting. The risk management strategy determines the company's hedging activities and should act as a decisive factor for the presentation of the hedging activities on the balance sheet.

We support the fact that the application of hedge accounting continues to be optional although we recognize the problems related to comparability. Financial reporting should not influence the risk management strategy. In addition, some hedge accounting relationships may not be designated because they fail a cost-benefit-analysis. Hence, hedge accounting should remain an accounting choice. We therefore welcome the decision of the Board to maintain the voluntariness of hedge accounting.

Question 2

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

Although we do not object to the expressed idea, we do not see any practical relevance attached to designating the items in Question 2 as eligible hedging instruments. We understand the aim of the Board to arm the Hedge Accounting standard for future developments. However, considering the high complexity of the exposure draft resulting from inevitable revisions, we do not understand why the Board has made a proposal that lacks any practical need. We would therefore vote for adopting the changes if, and when, they become necessary.

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?

The usage of an aggregated exposure as described is widely used in practice. Therefore, we agree with the proposal as it will facilitate reflecting our risk management strategy in the statement of financial position.

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 (ie 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 agree that a specific risk or risks should be allowed to be designated as a hedged item in a hedging relationship. For Siemens, the proposed permission of hedge accounting for non-financial components is highly desirable in order to reflect the economic effects of commodity hedging in the financial statements.

Siemens uses various strategies including derivative financial instruments in order to mitigate or to eliminate the commodity price risks which result from the ordinary production operations. Under the current IAS 39 only for a small portion of our commodity hedges, hedge accounting can be applied because the hedged commodities often are only a component of our purchased items. Therefore, our risk management strategy currently is not adequately reflected in our financial statements.

Therefore, it will be a substantial improvement for Siemens to apply hedge accounting to risk components that are separately identifiable and reliably measurable. We believe that the measurement of hedge ineffectiveness for the components can be done on a reliable basis. The commodity price components are often separated on the commodity supplier's billing and even if this is not the case, the price component could be reliably calculated by a price formula. We believe that measurement estimations used for component hedging will be more accurate than the measurement assumptions accepted in other standards. Instead, not allowing hedge accounting because of immaterial measurement impreciseness results in far more material accounting mismatches in the statement of financial position.

To conclude, investors will find a more consistent presentation of a company's risk management approach with the proposed component hedge accounting, and the reliably measured expected economic outcome of the hedges is better reflected in the financial statements.

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?

(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?

Although no agreements have been reached on portfolio hedge accounting, we think that the decisions to allow layer components as hedged items are in the right direction. In our opinion, an entity's risk management strategy is better reflected by allowing layers as hedged items, and the new regulation will improve hedge accounting possibilities.

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?

In general, we agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting. We think that it will help with the determination of hedge effectiveness and supports the orientation on the risk management strategy. At the end, any ineffectiveness is recognized in profit and loss and primarily qualitative hedge effectiveness seems reasonable from that perspective.

We specifically welcome the Board's proposal to abolish the bright-line which has, to us, always seemed quite arbitrary.

Anyhow, as pointed out by the alternative view "that the ongoing effectiveness test specified in the exposure draft is not sufficiently rigorous to provide a basis for hedge accounting because it does not attempt to ensure that the hedging relationship will be highly effective." (AV3), we still have some doubts how a reasonable, comprehensive and non-arbitrary effectiveness test can be performed only by the use of qualitative criteria. To avoid the consequences mentioned in the alternative view we strongly support the provision of some examples to explain such new terms as "no accidental offsetting" and "unbiased

result". We would assume that a designation of a hedged item and a corresponding hedging instrument, if it is in line with the company's risk management strategy, would never be only accidental.

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?

(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?

(a) In general, we concur with the concept of rebalancing instead of immediate discontinuation of hedge accounting if hedge effectiveness criteria are no longer met. We also think that rebalancing is in line with the concept that the risk management strategy is the leading principle for hedge accounting. As long as the risk management strategy does not change, the discontinuation of a hedge accounting relationship would lead to unintended results in the financial statements; whereas rebalancing enables the company to continue an existing hedge accounting relationship after necessary adjustments have been performed.

We would therefore support rebalancing if the adjustment of the hedge ratio could also consist of an adjustment of the hedged item e.g. due to cancellation or non-occurrence of parts of the hedged item. That would certainly add more flexibility to hedge accounting and decrease profit and loss volatility, because hedge accounting would not have to be discontinued and ineffectiveness nevertheless recognized for the non-occurring hedged items. Anyhow, we would not agree with rebalancing if it obliged companies to purchase new hedging instruments in order to again fulfill the hedge effectiveness criteria. Such a necessity would in effect force a company to undertake operative decisions due to accounting rules – something that in our understanding is not the objective of financial reporting. Therefore, we would like to urge the Board to allay our fears by an explicit statement that it does not intend to coerce companies into operative actions only due to specific accounting rules.

(b) As already mentioned under question 6, the hedge effectiveness criteria need further clarification because at present, it is extremely difficult to determine the exact moment when rebalancing is required. We therefore, again, recommend including examples of the rebalancing concept in such cases where its application is mandatory. Therefore, the distinction between newly introduced technical terms should be clear and understandable as they might lead to confusion due to their linguistic similarity. Especially the

difference between proactive rebalancing, which is allowed, and voluntary discontinuation, which is forbidden, should be explained. We would like to give an example to underline our worries:

To hedge a forecast transaction resulting in a cash inflow or a cash outflow in a currency other than the functional currency, a commonly used strategy is to employ a combination of a purchased and a written FX-option, i.e. a net purchased option or a zero cost collar. At exercise of the purchased option, the strike price represents the worst case whereas the strike price is the best case when exercising the written option. If foreign currency trends develop in favour of the hedging party during the hedging period, it is economically reasonable to replace the existing hedging instrument with a new one reflecting this change in market conditions (i.e. to lock in a more favourable worst case rate). The primary hedge accounting relationship would be replaced by the new one. In our view, such a procedure is covered by the statement in IN27, because it reflects the company's risk management strategy. An approach like that should be seen as rebalancing instead of voluntary discontinuation. Anyhow, we would very much appreciate clarification on this issue as well as examples to assist financial statement preparers in determining when discontinuation is not allowed, when it is mandatory and when rebalancing must be applied.

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?

(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 in general appreciate the proposals related to discontinuation, dedesignation and rebalancing of the hedge accounting relationship. However, we do not understand why voluntary discontinuation is not permitted when applying hedge accounting itself is allowed on a voluntary basis. We think, there is a conceptual conflict between the optional application of hedge accounting in the first place without the possibility of a later voluntary discontinuation. This is even more relevant considering that the term risk management strategy is not definite, enabling entities to change their risk management strategy with the objective of hedge accounting discontinuation. In our opinion, the rule could furthermore easily be abused by settling the original hedging instrument, resulting in the discontinuation of the hedge accounting relationship. As a matter of fact, this is still voluntary discontinuation, but apparently an allowed procedure. The prohibition of voluntary discontinuation could encourage companies to adjust

their risk management actions. Financial reporting should only be the reflection of the operative business and not influence a company's operations. In addition, there might be situations, e.g. due to cost-benefit-analysis, when companies would like to discontinue hedge accounting although the risk management strategy remains the same.

In our opinion, direction is needed as to when the risk management strategy changes – or expressed in other words, we find it very hard to define situations in which the general risk management strategy of a company actually changes. We would like to understand whether risk management strategy relates to the documented risk management strategy for the specific relationship at the beginning of hedge accounting or requires the holistic perspective of the company. In this context, additional information is needed if the change of risk management strategy involves all existing hedging relationships to be discontinued. We would clearly not support such a proposal as the impact on the company's financial statements would be immense and rather inconsistent.

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?

(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?

(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?

(a) In general, we do not see the need to change fair value hedge accounting mechanics when two hedge accounting methods (cash flow and fair value) continue to remain. Although the new fair value hedge accounting concept will have the same net impact on profit and loss compared to the current model, it requires costly technical adjustments that could be avoided. As we understand the new fair value hedge accounting mechanics, the aggregated other comprehensive income resulting from fair value hedge accounting will always equal zero, because any ineffectiveness is immediately recognized in profit and loss. Hence, we do not see the need to account for changes on the hedged item and on the hedging instrument via other comprehensive income, because we do not perceive further information usefulness acquired by that step. We think that a better solution would have been to emphasize and

enhance disclosure requirements on fair value hedge accounting instead of increasing complexity by developing this new accounting model.

(b) The presentation of gains and losses as a separate line item in the statement of financial position for each hedged item will in our opinion lead to further inflation of the statement of financial position at the expense of readability and comparability. The decision usefulness of the statement of financial position will be seriously impacted by presenting gains and losses on each hedged item in an individual separate line item. We would propose to maintain the current accounting approach for the hedged item as this mostly complies with a readable statement of financial position and rather recommend additional disclosures. Anyhow, analysts demand to identify directly the effect of fair value hedge accounting on the face of the statement of financial position. Since we recognize that this demand has been a main driver of the proposed changes instead of maintaining the current accounting mechanics, we would vote for presenting only one aggregated separate line item on the face of the statement of financial position and disaggregate that line item regarding its individual gains and losses on each hedged item in the disclosures.

(c) We do not consider linked presentation an acceptable solution because the concept of linked presentation is too complex without providing further information for the financial statement's addressees. We consent to the reasons why the IASB has voted against allowing 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 (eg 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?

(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?

(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 (ie 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 with the proposed solutions. As the IASB has noted, the accounting choice to separate the time value of an option from its intrinsic value for hedge accounting is widely used in practice to avoid ineffectiveness. Although the proposed treatment of the time value of options will add complexity, we nevertheless think that it will facilitate and increase the usage of options as hedging instruments within 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 believe that the eligibility of groups as hedged items including net positions is a step in the right direction because it will allow companies to better reflect their risk management strategy on the balance sheet. Although we regret that offsetting cash flows of groups as hedged items cannot be designated for cash flow hedge accounting if they affect profit and loss in different periods, we understand the difficulties associated and agree with the proposed restriction.

In our opinion, the criteria for the eligibility of groups as hedged items are sensible. However, we do not quite understand the criteria presented for the hedging of nil net positions as one is “that the hedge is part of a rolling net risk hedge strategy for a hedged position that changes in size over time” (ED 39). In our understanding this would be an open portfolio although IN7 indicates clearly that open portfolios or macro hedging have not been addressed in this exposure draft.

Anyhow, we think that the currently developed approach to the eligibility of groups as hedged items already represents alleviation and direction for a further standard development regarding portfolio hedge accounting, something we strongly support as described in the comment letter and in the proposal for hedge accounting of open portfolios

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 (eg 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 do not agree with that proposal because of the complexity this will add to prepare the income statement, similar to our answer to question 9(b). We understand that the increased complexity is due to the expansion of possible hedge accounting relationships, but we like to give warning of the increasing

difficulty to present readable and easily understandable financial statements if various new positions are created. We rather suggest presenting one single line item in the statement of income, representing all of the company's hedging activities and disaggregating that line item in the disclosures into effects from hedge accounting and non-hedge accounting.

Question 13

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

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

According to the new hedge accounting model with the risk management strategy as the integral factor, we understand that a thorough description of a company's risk management strategy forms an important part of disclosure requirements. Additional disclosures will help financial statement users to better understand the hedging activities of the company. However, we encourage you to provide more detailed information on newly introduced terms like "category of risk exposure" and "types of risk exposures" (ED IFRS 9, paragraph 45) and the differences between them.

Until now, it is unclear if, and how, the new disclosure requirements will be incorporated into IFRS 7. In appendix C of the exposure draft, only the deletion of hedge accounting related disclosures is announced without reference to other content of IFRS 7. We recognize other similarities between the existing requirements of IFRS 7 and the new ones due to the discussed exposure draft (except the inevitable changes because of new regulations) and would ask for more information on the interaction of both standards.

Although we are aware of the fact that the new hedge accounting proposals involve adjustments to disclosure requirements, we generally would like to emphasise that, in our opinion, disclosure requirements should not exceed a reasonable level. In particular, the requested disclosures of paragraph 46 to, among others, state the quantity of each particular risk the company is exposed to provide the company with difficulties to identify and determine the correct amounts. The specification of the unhedged risk is difficult to determine and judgemental as planned sales have to be estimated. Furthermore, no indication is given as to which timeframe should be covered. We do not suppose that the aim was to present to competitors quantitative details about a company's planned sales. Additionally, a cost-benefit-analysis is essential when considering new disclosures. Regarding the increased requirements, costs for financial statement preparers seem to outweigh the expected benefits.

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?

(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 recognize the problems with all three alternatives presented, but we would like to request the IASB – to further investigate in combination with the portfolio hedge accounting if there are possible ways to allow hedges of credit risks using credit derivatives.

Question 16

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

We agree with the proposed transition requirements. We do not support simultaneous application of IAS 39 and IFRS 9 until the last IAS 39 hedge accounting relationship has expired which would be the alternative transition method. Technical complexity, extensive explication needs and the risk of misleading financial information impede the alternative transition procedure. We share the views of the Board that retrospective application due to the particular characteristics of hedge accounting is not applicable and appreciate the required prospective application.

Proposal for Hedge Accounting of Open Portfolios

As announced in the general remarks, Siemens proposes an alternative to allow portfolio hedge accounting which will be described in the following:

An entity would define a hypothetical hedged item or a portfolio of hypothetical hedged items (e.g. a fixed-interest-bearing loan or a portfolio of fixed-interest-bearing loans with varying tenors), based on the structure of the actual portfolio containing the internal positions, which will then be hedged via external derivatives. The hypothetical hedged item will at all times represent less than 100 % of the actual exposure as represented by the complete portfolio containing the internal positions. In our opinion, the concept of a hypothetical hedged item is very similar to or a further development of the concept of layers introduced in the exposure draft: A hypothetical hedged item also incorporates the idea that, even though the individual items of a basic population cannot, with certainty, be determined for future points in time, there will be a 'bottom layer'¹ or a basic proportion that will in all likelihood materialize. Therefore, a hypothetical hedged item would be significantly more stable than an open portfolio. The adequacy of the hypothetical hedged item in comparison with the actual portfolio would be monitored, with the hypothetical hedged item being adjusted if necessary.

Siemens expects the following advantages from using a hypothetical hedged item: The documentation of the hedging relationship, both at inception as well as on an ongoing basis, will be substantially facilitated since the hedged item is, apart from adjustments triggered by business developments, stable. As a result of this, the description and evaluation of the hypothetical hedged item is significantly less complicated than that of a multitude of individual and changing items in an open portfolio. Nevertheless, Siemens expects the following disadvantage from using a hypothetical hedged item: Even if the complete exposure (as represented by the complete portfolio of internal positions) is hedged, the entity cannot apply hedge accounting to all of the external derivatives since the hypothetical hedged item represents less than 100 % of the actual exposure as represented by the complete open portfolio.

Analogously to the layer concept, an entity could enter into external derivatives which will mitigate the risk of changes in interest rates to which the hypothetical hedged item is exposed. The hypothetical hedged item will not necessarily be hedged to a degree of 100 %. The entity would designate the hypothetical hedged item as the hedged item in a hedge accounting relationship and the external derivatives mitigating the risk of changes in interest rates resulting from the hedged item as hedging instruments in the same hedge accounting relationship. We are aware of the fact that a requirement to

¹ See also approach outlined in Staff Paper 10 D, dated 16 November 2010, Topic: Macro hedge accounting – a bottom layer approach, as well as the tentative decision taken by the IASB at the subsequent board meeting to consider further the concept of defining the hedged item as a bottom layer of the overall portfolio of prepayable debt instruments.

present the gain or loss attributable to the hedged risk as a separate line item in the statement of financial position in case of fair value hedge accounting (question 9 (b)) might pose certain challenges in this context. This is one of the reasons why we do not support such a separate presentation.

Regarding our concept, we think that a hypothetical hedged item could qualify as a hedged item in a hedge accounting relationship. Therefore, we believe that when applying hedge accounting to an open portfolio of hedged items such as the one described above, it suffices to demonstrate clearly and unambiguously that it is an integral part of the entity's risk management strategy to enter into external derivatives (hedging instruments) on the basis of internal positions, provided that such internal positions are a close approximation of the actual external positions. We do not think that an entity would have to measure the actual external positions at fair value in any case in order to determine actual ineffectiveness.

We believe that one possible, and perhaps the most logical, avenue would be to conduct the effectiveness test using a risk measurement methodology, e.g. the Value-at-Risk (VaR) concept: The VaR associated with the hypothetical hedged item only would be compared to the VaR resulting from the position comprising both the hypothetical hedged item as well as the external derivatives designated as hedging instruments in the hedge accounting documentation. As long as the latter is smaller than the former, the hedge would be deemed efficient. In our opinion, the strong argument underpinning this approach is the fact that it is completely in line with the entity's risk management strategy, which defines the extent to which risk positions have to be hedged via external derivatives on the basis of just such VaR-limits. In order to determine actual ineffectiveness, the change in the fair value of the hypothetical hedged item would be compared to the change in the fair value of the designated hedging instruments.