

February 15, 2011

International Accounting Standards Board

www.ifrs.org/comment on a proposal

Re: Exposure Draft Hedge Accounting

Comments due 9 March 2011

To the Board:

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the International Accounting Standards Board (the “Board”) on this proposed standard.

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 35,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Below represents the consensus from our deliberations of the Exposure Draft.

Question 1

Do you agree with the proposed objective of hedge accounting?

The Committee agrees.

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?

The Committee agrees.

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?

The Committee agrees.

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, provided that the risk component is separately identifiable and reliably measurable?

The Committee agrees.

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?

The Committee agrees.

- (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?

The Committee does not agree. The Committee believes that circumstances may exist where the layer component of the nominal amount that includes a prepayment option may be subject to a hedging strategy for which effectiveness could be measured.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting?

The Committee agrees.

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 relations remains the same?

The Committee agrees.

- (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?

The Committee agrees.

Question 8

- (a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria?

The Committee agrees.

- (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?

The Committee agrees.

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?

The Committee agrees.

- (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?

The Committee does not agree. The Committee believes that the presentation could be made in the notes to financial statements and still adequately communicate the impact of hedging activities.

- (c) Do you agree that linked presentation should not be allowed for fair value hedges?

The Committee agrees.

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?

The Committee agrees.

- (b) Do you agree that for period related hedged items, the part of the aligned time value that related to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis?

The Committee agrees.

- (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?

The Committee agrees.

Question 11

Do you agree with the criteria for the eligibility of groups of items as a hedged item?

The Committee agrees.

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, 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?

The Committee agrees.

Question 13

- (a) Do you agree with the proposed disclosure requirements?

The Committee agrees.

- (b) What other disclosures do you believe would provide useful information?

The Committee did not identify any other disclosures.

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?

The Committee agrees.

Question 15

- (a) Do you agree that all of the three alternative accounting treatments to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments?

The Committee does not agree that unnecessary complexity would be added in all circumstances.

(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?

The Committee concluded that alternative 2 should be developed further by the Board but did not conclude as to recommendations to changes to that alternative.

Question 16

Do you agree with the proposed transition requirements?

The Committee agrees; however the Committee requests that consideration be given to coordinating transition with the financial instruments project of the U.S. Financial Accounting Standards Board.

We thank the Board for the opportunity to comment on the proposed standard. We would be glad to discuss our opinions with the Board should they have any questions or require any additional information.

Very truly yours,

A handwritten signature in cursive script, appearing to read "JoAnn Guattery".

JoAnn Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants