Foreningen af Statsautoriserede Revisorer
Kronprinsessegade 8, 1306 København K. Telefon 33 93 91 91
Telefax nr. 33 11 09 13 e-mail: fsr@fsr.dk Internet: www.fsr.dk

European Financial Reporting Advisory Group (EFRAG)
Att.: Francoise Flores
Square de Meeûs 35
B-1000 Brussels

E-mail: Commentletter@efrag.org

3 March 2011

OSJ/LSJ X:\Udvalg\REGU\KOR\2011\hedge accounting2.doc

Dear Madam,

EFRAG Draft Comment Letter on Exposure Draft *Hedge Accounting*

The Danish Accounting Standards Committee (DASC), set up by FSR, is pleased to comment on the EFRAG Draft Comment Letter on Exposure Draft *Hedge Accounting*. Overall, we support the direction of the Draft Comment Letter and the comments and suggestions made. Notwithstanding this support, we have highlighted below a few concerns and comments regarding the exposure draft.

General comments

We think that it is of utmost importance to establish a hedge accounting regime that is better aligned with risk management practices as soon as possible. We think that the ED is clearly in the right direction in this respect. We find that if the mandatory effective date for the upcoming significant number of new standards is 2015, it should at least be optional for entities to adopt the much more principle based hedge accounting provisions before 2015.

We were co-organizer of an IASB Outreach event in Copenhagen in February 2011 on Hedge Accounting. It was clear from this event that the participating preparers in our jurisdiction (Denmark) would be able to provide more meaningful financial reporting by applying the new standard.

Therefore, we do not agree that completion of the macro-hedging phase of the new standard should be a pre-condition for issuing a final standard on general hedging issues because this would most likely delay issuance of a final standard significantly. In our experience, macro hedging is first of all an issue for financial institutions, while non-financial entities to a wide extent will be able to take advantage of the alignment to risk management practices that is inherent in the ED.

For the reasons set out above, we do neither support that the IASB should consider the issues listed in (b) on page 2 before finalizing the ED.

Comments on the concept underlying the ED

We are not convinced that that the neutrality effectiveness criteria set out in the ED is really necessary because entities would in general seek to minimize ineffectiveness. As an alternative, we would prefer eligibility based solely on whether the item from a risk management perspective is treated as a hedged item and that as well over- as under-effectiveness is recognized in the income statement in a cash flow hedge (i.e. the change in the fair value of a perfect hedging instrument is recognized in OCI, while the difference is recognized in the income statement).

We are neither convinced that the complex rebalancing provisions are really necessary. The proposal set out above with respect of accounting for ineffectiveness would in our view ensure discipline.

Alternatives to hedge accounting – fair value measurement for certain own use contracts
We agree with EFRAG that the proposal would not solve the issue identified. Only a model under which all own use contracts regardless of whether they can be net settled or not and inventories are measured at fair value would resolve the issue.

--- o 0 o ---

Best regards,

Jan Peter Larsen
Chairman of
Accounting Standards Committee

Ole Steen Jørgensen
Chief Consultant, FSR