

To EFRAG

**Topic: Exposure Draft Hedge Accounting ED/2010/12**

With reference to your invitation, we are pleased to take the opportunity to contribute to the discussion on the Hedge accounting (“HA”) ED.

ENEL Group produces, distributes, purchases and sales energy commodities worldwide, and widely applies hedge accounting for its operational and financial transactions.

The proposed changes will have a great impact on our accounting, presentation and disclosures.

Please find below some observation and our main concerns on the topic.

ENEL welcomes:

1. The new HA objective to represent the risk management effect and objectives
2. The removal of the retrospective 80/125% test
3. The rebalancing procedure, to prevent the IAS 39 economic effects of HA terminations and re-designations
4. The removal of the prohibition to hedge ingredients of non financial assets
5. The explicit assertion that a layer of a nominal amount may be a hedged item
6. The prospective application of the new rules.

Nonetheless, ENEL is concerned about the followings.

**1. Basis adjustment made compulsory for Cash Flow Hedge of non-financial items.**

Our Group does not use basis adjustment, though apparently intended to facilitate the accounting treatment, due to the fact that it is not completely clear whether the information related to the amount and nature of the effective portion removed from OCI is still needed (and therefore must be tracked) for the preparation of the cash-flow statement and disclosures or for tax purposes.

For example, consider a highly probable purchase of gas is hedged at time  $A_0$  for Foreign Exchange risk.

Once the gas is delivered at time  $A_1$  its cost of 100 CU should be rectified of the effective portion of the hedge. Should the derivative fair value measurement increase by an amount equal to 5CU, the net accounting value of the gas stock would be 95CU. Suppose that at the reporting date the cash outflows are related to the gas purchase since the derivative is still outstanding. It is not clear how the related fluxes would be tracked, presented and disclosed, especially with reference to the OCI change due to the release fair value effective portion of 5CU.

**We would welcome some clarifications on the topic.**

**2. Discontinuance**

We feel there is no bright line to understand when a hedge relationship should be discontinued. More specifically, it is not clear when it is correct to conclude that hedge accounting requirements are not met even if the risk management objectives are the same and an offsetting other than casual is expected.

More specifically, might a company conclude that hedge accounting is still feasible when the basis risk changes but the risk management objective is the same?

For example, risk management intends to hedge the interest rate variability risk on the forecasted cash outflows on short term funding and it initially enters into a **6 month libor to fix** swap; afterwards a basis swap **3 month libor to 6 month libor** is traded to adjust to the new market expectations. **Would the hedge be discontinued?**

**3. Fair Value hedge**

We have some concerns relating to the presentation of the fair value adjustment in a separate line item in the financial statement, next to the hedge item.

We would support presentation in a single line item, with details disclosed in the notes to the financial statement and, additionally, we would suggest a simple amortization technique of the hedge item adjustment where needed..

Also, we have some doubts as how changes in the fair value adjustments should be disclosed.

**4. Net investment**

Since hedge of a NIFO is very close to CFH, we would suggest to eliminate this category and include it in CFH, providing all due information in the notes to the financial statement.

**5. Hedging a closed portfolio**

It is not clear where ED paragraph 37 refers only to CFH (it probably does, seeing B79) or not. An explicit reference would be appreciated.

Further, BC 181 seems to assert that a hedged item should be measured using the hedge price, rather than the spot price rectified by the effective portion of the hedging instrument.

**We suggest the Board to clarify this point.**

**6. Time value option in CFH**

We suggest to provide for a single model and simplify the accounting treatment, and we would propose a rational amortization (i.e. the same as the one proposed for time period related transaction).

## 7. Disclosure

We invite the board to clarify:

- What is meant by risk category and type of risk including examples in the Implementation Guidance, in order to avoid confusion and excessive details
- To reconsider the information required in paragraph 46, since some hedges cover an extensive period
- To clarify and reconsider the disclosure about OCI movements, since they seem not to include *basis adjustment* transactions

Rome, 23 February 2011