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Louis Rauchenberger
Managing Director & Corporate Controller

April 25, 2011

Susan M. Cospers
Financial Accounting Standards Board
401 Merritt 7,
Norwalk, CT 06856-5116

File Reference: No. 2011-175 “Selected Issues about Hedge Accounting (Including IASB Exposure Draft, *Hedge Accounting*)”

Dear Ms. Cospers,

JPMorgan Chase & Co (“JPMorgan Chase” or “the Firm”) appreciates the opportunity to comment on the Discussion Paper “Selected Issues about Hedge Accounting (Including IASB Exposure Draft, *Hedge Accounting*)” (the “DP”) issued by the Financial Accounting Standards Board (“FASB” or the “Board”).

We appreciate the FASB seeking input with respect to the International Accounting Standards Board’s (“IASB”) Exposure Draft (the “ED”). We believe that certain of the proposed changes would simplify and improve the existing hedge accounting framework in U.S. GAAP, including the ability to (a) use certain non-derivative financial assets and liabilities as hedging instruments, (b) designate a derivative and another exposure together as the hedged item, and (c) designate certain risk components of nonfinancial assets and liabilities as the hedged risk. These changes would allow a firm’s risk management activities to be more transparently reflected in its financial statements and related disclosures.

However, we are concerned that certain changes proposed in the ED would have the unintended consequence of retaining or increasing the complexity of applying hedge accounting. For example, the proposal to base the hedge effectiveness assessment on the hedge ratio may require entities to continue frequent statistical assessments, and may unnecessarily require entities to adjust the hedge ratio each period in order to meet the revised hedge effectiveness requirements. In contrast, the FASB’s proposal that hedging relationships be reasonably effective would achieve many of the same objectives of the ED’s hedge effectiveness requirements with much less complexity. We are further concerned that the IASB’s proposed changes to the requirements regarding dedesignation would increase the documentation and audit burden for common and appropriate changes in risk management, and therefore favor retention of the ability to voluntarily dedesignate hedge relationships.

We support the FASB’s and the IASB’s continued efforts to simplify and converge the accounting for derivatives used as hedging instruments. We encourage the Boards to align the ultimate model with how derivatives are used in risk management, and to reduce the obstacles to applying hedge accounting to prudent and common risk management strategies. In the short term, we encourage the FASB to consider targeted changes to US GAAP that would simplify the hedge effectiveness requirements and provide convergence on designation of component risks, as we believe that these targeted improvements can be accomplished quickly and would provide significant improvements over existing standards.

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Our detailed responses to certain questions in the Discussion Paper relevant to the Firm's experience are summarized below.

* * * * *

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212.270.3632 or Bret Dooley at 212.648.0404.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Louis Rauchenberger".

Louis Rauchenberger

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Question 1

When an entity uses financial instruments to manage risk exposures in economic hedges but those instruments are not designated in hedging relationships for accounting purposes, do you believe that the proposed guidance would provide useful information about all of the effects of an entity's risk management objectives?

Since hedge accounting applies only to a subset of activities undertaken for risk management purposes, the ability to reflect the full effect of an entity's risk management activities through hedge accounting is necessarily limited. Therefore, an objective of hedge accounting cannot be to reflect the entirety of an entity's risk management activities. However, we believe that aligning financial reporting with risk management activities, even for a portion of those activities, provides useful information to financial statement users.

We believe that the ED's objective (to represent the effect of risk management activities using financial instruments in the financial statements) may be too broadly stated and that it may be more accurate to state that the objective is to mitigate the recognition and measurement anomalies between the accounting for hedged items and the hedging instruments used in risk management activities. However, the IASB's concept of focusing on risk management activities would remove obstacles to designating risk management activities in qualifying hedge relationships, and therefore represents an improvement to existing US GAAP.

Question 2

Do you believe that the proposed guidance and illustrative examples included in the IASB's Exposure Draft are sufficient to understand what is meant by risk management, how to apply that notion to determine accounting at a transaction level, and how to determine the appropriate level of documentation required? Why or why not?

We believe that what constitutes risk management and the risk management objective is understood by preparers and users and that further guidance would not be required. We understand that applying that notion to determine accounting at a transaction level would require certain interpretation by preparers and auditors, but we believe that such questions could be adequately addressed during implementation.

One issue that would raise questions regarding the appropriate level of documentation required relates to the proposal to disallow a de-designation in the absence of a change in risk management intent. We believe that this issue would be best addressed by removing the restriction on dedesignations, as discussed further in our response to Question 16.

Question 3

Do you foresee an entity changing how it determines, documents, and oversees its risk management objectives as a result of this proposed guidance? If yes, what changes do you foresee? Do you foresee any significant difficulties that an entity would likely encounter in establishing the controls related to complying with the proposed guidance?

In general, existing practices regarding determining and documenting risk management objectives should suffice under the ED. However, the requirement to document a change in risk management objective in order to dedesignate a hedge relationship would require additional documentation, the required content of which is unclear and likely subject to interpretation. Although we believe

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processes could be created to create such additional documentation burden, we disagree that the perceived benefits would justify the additional costs.

Question 5

Should cash instruments be eligible to be designated as hedging instruments? Why or why not? If yes, is there sufficient rigor to prevent an entity from circumventing the classification and measurement guidance in other relevant accounting guidance (for example, IFRS 9, Financial Instruments, and IAS 21, The Effects of Changes in Foreign Exchange Rates)? Are there any operational concerns about designating cash instruments (such as items within a portfolio of receivables as hedging instruments)?

We agree that non-derivative financial assets and liabilities should be eligible for use as hedging instruments. Allowing the use of non-derivative financial assets and liabilities will increase the amount of hedging instruments available to entities to designate as hedges and may decrease hedging costs by allowing the use for hedge accounting purposes of existing assets/liabilities that offer a natural offset to the risk being hedged. The intersection between hedge accounting designation and other relevant accounting guidance can be better assessed after the FASB and IASB have reached conclusions regarding classification and measurement guidance for financial instruments, but in general we expect that operational concerns can be adequately addressed.

Question 6

Do you believe that the proposed guidance is sufficient to understand what constraints apply when determining whether an item in its entirety or a component thereof is eligible to be designated as a hedged item (for example, equity instruments measured at fair value through profit or loss, standalone derivatives, hybrid instruments, and components of instruments measured at fair value through profit and loss that are not permitted to be bifurcated)? If not, what additional guidance should be provided?

We anticipate that differing opinions may exist as to which items or components may be eligible to be designated as a hedged item under the proposed guidance. We believe the Board's intent regarding constraints to the designation eligibility of potential hedged items would need to be more clearly articulated and should be exposed for public comment.

Question 7

Do you believe that the proposed criteria are appropriate when designating a component of an item as a hedged item? If not, what criteria do you suggest? Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to determine when the criteria of separately identifiable and a reliably measurable have been met? If not, please describe what additional guidance should be provided.

We support the IASB's proposal to continue to allow entities to designate risk components of financial assets and liabilities in hedging relationships and to expand the hedging of components to nonfinancial assets and liabilities. We strongly encourage the FASB to adopt the components approach as we believe it represents an improvement to US GAAP. The ability to designate risk components allows entities to transparently reflect in the financial statements the results of their risk management strategies based on component risks. Component hedging of financial risks has been applied by IFRS preparers for many years and existing interpretations could be leveraged for consistent global application.

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Question 8

Do you believe that “separately identifiable” should be limited to risk components that are contractually specified? Why or why not?

The ability to align the designation with the risk management objective increases the transparency of the risk management activity in the financial statements. Any proposed restrictions on the designation of separately identifiable risks should be weighed against this improvement in financial reporting. We are not aware of practice issues resulting from the ability under IFRS to designate separately identifiable and reliably measurable component risks that are not contractually specified, and therefore we do not believe that designated hedged risks should be limited to only contractually specified elements.

Question 10

Do you believe that the proposed guidance is sufficient to understand what constraints apply to determining a layer component from a defined, but open, population? (For example, do you believe that the sale of the last 10,000 widgets sold during a specified period could be designated a layer component in a cash flow hedge?) If not, what additional guidance should be provided?

We support the IASB’s proposal to expand the ability to designate as the hedged item a layer of the nominal amount of an existing asset or liability. This ability already exists for forecasted transactions and we believe that the current inconsistent treatment of forecasted and existing transactions is a weakness of the current model. For example, if an entity designates one portion of a debt issuance liability as a hedged item in contemplation of a potential future extinguishment of another portion of the debt issuance, current accounting standards would not allow the entity to account for the portion of debt that remains outstanding as continuing to be fully hedged. Instead, the entity must consider an equivalent percentage of the extinguished debt and of the remaining debt as each having been designated as the hedged item. We believe that the IASB’s proposal to designate the bottom layer of the nominal amount would provide a more meaningful result for such circumstances. The guidance and examples in the IASB’s exposure draft provide helpful information with respect to designating a layer of the nominal amount but if the Boards intend for additional constraints to apply, those constraints should be exposed for public comment.

Question 11

Do you foresee any operational concerns applying other guidance in IFRS (for example, guidance on impairment, income recognition, or derecognition) to those aggregated positions being hedged? For example, do you foresee any operational concerns arising when an impairment of individual items within a group being hedged occurs? If yes, what concerns do you foresee and how would you alleviate them?

The intersection between hedge accounting designation and other relevant accounting guidance can be better assessed after the FASB and IASB have reached conclusions regarding classification, measurement and impairment for financial instruments. While we understand that certain new issues may arise due to the ability to apply hedge accounting to aggregated exposures and net positions, certain related practice issues have already been addressed under existing hedge accounting standards, and we believe that such issues can be addressed as the Boards reach conclusions in the Accounting for Financial Instruments Project.

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Question 12

Do you believe that the proposed guidance on aggregated exposures will provide more transparent and consistent information about an entity's use of derivatives? Why or why not?

We support the IASB's proposal that an aggregated exposure of a derivative and another exposure be eligible as a hedged item. As noted in the example in paragraph BC50 of the Exposure Draft an entity may not always desire to hedge multiple risks similarly (i.e. hedging one risk for a different duration than the other). Therefore, we believe this will allow entities to better reflect in the financial statements how they manage the risks of multiple exposures (e.g. foreign exchange and interest rate in the IASB's example) differently.

Question 13

Do you believe that an entity should be permitted to apply hedge accounting to a group of cash instruments or portions thereof that offset and qualify as a group under the proposed guidance and satisfy the proposed hedge effectiveness criteria? Why or why not?

We are supportive of the IASB's proposal that groups of cash instruments that offset and qualify as a group are eligible hedged items as long as they meet the hedge accounting requirements. We believe that hedging a net position of cash instruments may be more closely aligned with how an entity risk manages those positions and therefore is an improvement to the existing hedge accounting model.

Question 14

Do you foresee any significant operational concerns, including auditing issues, in determining how to assess whether a hedge achieves other-than-accidental offset? If yes, what concerns do you foresee and how would you alleviate them?

We appreciate the IASB's desire to reduce complexity by removing the existing requirement that hedging relationships be "highly effective." However; we are concerned that the IASB's proposed solution could unintentionally cause an operational burden to preparers similar to or greater than that under existing IFRS and US GAAP. Some may interpret the IASB's Exposure Draft to require a preparer to regularly perform a quantitative analysis, such as regression, rather than a qualitative test in order to determine that a hedge relationship produces an unbiased result that minimizes expected hedge ineffectiveness. We believe that a simplified hedge accounting model should limit quantitative testing in favor of qualitative review wherever reasonably possible, and that the hedge effectiveness requirements should support qualitative reviews. Furthermore, the requirement that a hedge relationship have no deliberate mismatch may require the hedge relationship to be rebalanced every period in order to achieve the optimal hedge ratio, and may also require the entity to incur unnecessary additional costs by entering into new derivative contracts or terminating existing contracts upon rebalancing. We believe that if a hedge relationship is designed, at inception, to be unbiased then rebalancing should not be required unless deemed necessary for risk management purposes. Subsequent testing should be limited to a qualitative review of whether bias has been introduced since inception.

The FASB's proposed "reasonably effective" standard would more simply address the same objective than introducing a hedge effectiveness requirement based on the hedge ratio. Thus we prefer the FASB's proposal to reduce hedge effectiveness complexity over the IASB's proposal.

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Question 15

Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to analyze hedge effectiveness (for example, how to measure the change in the value of the hedged item attributable to the related hedged risk for nonfinancial items)? If not, what additional guidance is needed?

We support the IASB's proposal to limit hedge effectiveness testing to an initial assessment and thereafter on a prospective basis, as opposed to both a retrospective and a prospective basis. However, we do not believe that the IASB's examples provide sufficient guidance to understand whether the offset of the hedged item and the hedging instrument is "accidental" and when rebalancing of a hedging relationship would be required. This complexity could also be avoided by adopting a reasonably effective standard rather than a hedge effectiveness requirement based on the hedge ratio.

Question 16

Do you foresee any significant operational concerns or constraints in determining whether (a) a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship or (b) an entity's risk management objective has changed? If yes, what concerns or constraints do you foresee and how would you alleviate them?

We disagree with the IASB's proposal to disallow voluntary dedesignations of hedging relationships. We do not understand the IASB's concern regarding voluntary dedesignation and what issues are perceived in current practice. Additionally, we question the benefits associated with the costs of additional documentation and auditing to support the assertion that a risk management objective has changed. We believe that dedesignation of a hedging relationship should remain voluntary and that additional documentation detailing the nature of the change in risk management intent should not be required.

However, amending the hedge accounting model to reflect that certain changes to hedge relationships represent rebalancings versus discontinuations of the hedging relationships would be useful when the intent is to retain the hedge relationship after the amendment of the pertinent terms. The accounting burden resulting from the discontinuation of a hedge relationship that is intended to continue does not serve a useful financial reporting purpose and we agree with the IASB that such consequences should be avoided.

Question 17

Do you foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting? If yes, what concerns or constraints do you foresee and how would you alleviate them?

The requirement that a hedge relationship have no deliberate mismatch may require the hedge relationship to be rebalanced every period in order to achieve the optimal hedge ratio, resulting in operational burdens that may be significant. Any changing of the hedging ratio will increase the administrative burden of performing hedge accounting and it may also require the entity to incur unnecessary transaction costs by entering into new derivative contracts or terminating existing contracts upon rebalancing. As addressed previously, we are concerned that the changes to the requirements regarding dedesignation and mandatory rebalancing would increase the documentation and audit burden for common and appropriate changes in risk management and therefore do not support the IASB proposal in this regard.

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Question 19

Do you believe that the proposed presentation of the gains and losses in other comprehensive income will provide users of financial statements with more useful information? Why or why not?

We do not believe that separate presentation of fair value hedge gains and losses in the statement of other comprehensive income represents an improvement in financial reporting because it will add more complexity to that statement. We believe that presentation of the fair value hedge gain or loss on the hedging instrument and hedged item in footnote disclosures provides users with the information they need in one location. Additionally, the proposed presentation change would result in increased systems cost for preparers to have hedging instruments and hedged items currently being mapped to current period income to be reported in OCI, costs which we believe are unjustified.

Question 20

Do you believe that the proposed presentation of a separate line item in the statement of financial position would increase the transparency and the usefulness of the information about an entity's hedging activities? Why or why not?

We do not object to the IASB's proposal 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. We understand that some users prefer statement of financial position amounts to be cost or fair value and not subject to hedge accounting adjustments. However, we question how useful the proposed presentation would be to users because we believe that the relative immateriality of most hedging programs to other items on the statement of financial position will result in the line item representing the basis adjustment being presented in "other assets" or "other liabilities" in the statement of financial position, rather than displayed as its own line item. In addition, presentation as a line item separate from the hedged item increases the control risks associated with subsequent amortization of the basis adjustment, since the hedged item and the basis adjustment are separated. Therefore, we believe disclosure of the basis adjustment for fair value hedges may be more useful for users of financial statements than separate presentation on the face of the statement of financial position.

Question 22

Do you foresee any significant auditing issues arising from the inclusion of risk management disclosures in the notes to the financial statements? If yes, what issues do you foresee and how would you alleviate them? Do you believe that it is appropriate to include risk management disclosure in the notes to the financial statements rather than in other information documents containing financial statements? Why or why not?

The disclosures proposed in paragraphs 49-52 of the IASB's Exposure Draft are similar to those recently required by the FASB in SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. The IASB should converge its requirements to that of SFAS 161. We do not believe that additional derivative footnote disclosures beyond these would be necessary.

We believe that risk management disclosures are forward-looking by nature and are more appropriately addressed in Management's Discussion and Analysis (MD&A) for SEC registrants and not in the footnotes to the financial statements. We believe that risk management disclosures should be considered holistically, and not within the confines of a hedge accounting project. Accordingly, we encourage the FASB to work with the SEC on its Risk Disclosure topic within the Accounting for Financial Instruments project with the ultimate goal of revising MD&A discussion to address the needs of financial statement users.

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Question 23

Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to U.S. GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to U.S. GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standards?

While the objective of hedge accounting should be more narrow than described by the IASB (please see our response to Question 1), the intent to provide greater alignment of hedge accounting with the risk management activities is a superior starting point for any changes to either US GAAP or IFRS. Any reconsideration of Topic 815 should include the objective of removing obstacles to designating actual risk management activities in qualifying hedge relationships.

In the short term, the FASB should begin with very targeted changes to US GAAP that (1) simplify the hedge effectiveness requirements (i.e. implement the “reasonably effective” standard), (2) allow the designation of components of financial and commodity risks, and (3) provide additional disclosures to address any concerns arising as a result of these changes. These targeted changes could be achieved in the short term resulting in the most efficient increase in simplicity and convergence.