



April 27, 2011

Via Email director@fasb.org

Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File reference: 2011-175 Selected Issues about Hedge Accounting (Including IASB Exposure Draft, *Hedge Accounting*)

Cargill is an international producer and marketer of food, agricultural, financial and industrial products and services. Cargill employs 135,000 people in 66 countries. We have subsidiaries outside of the U.S. that prepare financial statements in accordance with International Financial Reporting Standards (IFRS) and we are also closely following the possible future adoption of IFRS standards in the U.S. As a result, we have a keen interest in the International Accounting Standards Board's (IASB) hedge accounting exposure draft and its convergence efforts with the Financial Accounting Standards Board (FASB) on this topic.

We appreciate the opportunity to comment on the Board's discussion paper, "Selected Issues about Hedge Accounting (Including IASB Exposure Draft, *Hedge Accounting*)." We support the Board's efforts to develop high quality, globally consistent standards with respect to derivative and hedge accounting.

We support the IASB's proposed objective of aligning hedge accounting more closely with an entity's risk management activities. In particular, we support the IASB proposals that would qualify more types of items, including groups of items and risk components of non-financial instruments, such as commodity contracts, as hedge items and hedging instruments. We believe these proposals are consistent with the proposed objective of hedge accounting and would potentially allow us to adopt accounting models that better reflect the way risk is actually managed in certain of our businesses, thereby producing financial statements that provide more useful information to users.

Our detailed responses to certain questions posed in the discussion paper are attached. We would be pleased to discuss our views with the FASB or its staff.

Sincerely,

Cargill, Incorporated

A handwritten signature in blue ink, appearing to read "Patrick C. Webster", is written over the printed name.

Patrick C. Webster
Vice President and Controller Administrative Division

Enclosures

Responses to selected questions

Q7. 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 reliably measurable have been met? If not, please describe what additional guidance should be provided.

We believe the proposed criteria are appropriate and can be readily evaluated based on the facts and circumstances of a particular market. The IASB proposal to allow hedging of a risk component would better align the accounting with the economics of Cargill's actual risk management practices and would result in a significant improvement in hedge accounting standards as applied to our industry. We believe that certain commodity risk components of our agricultural commodity contracts are separately identifiable and reliably measurable. There are many agricultural commodities that are traded in well-established, robust markets where price is readily determinable. It is a longstanding business practice of Cargill to economically hedge the commodity price risk component of the elements of our net positions, made up of physical long positions in commodity inventories and forward purchase and sale contracts. Cargill believes that hedge accounting should be available to reflect actual risk management activities of its businesses in its financial statements and limit unnecessary volatility.

Although we use fair value measurement through net income as our most common practice to account for commodity positions, there are situations in which hedge accounting is or could be applied in order to achieve financial reporting results in line with actual business and risk management economics. A number of our finished goods have a significant aspect of their pricing and value derived from commodity components that can be hedged in an established market, but the inventories and sales contracts may not meet the criteria to mark to market. The ability to identify and use hedge accounting on the commodity price risk component of our finished goods inventory and sales contracts would be more consistent with how we actually manage our economic risks.

Q8. Do you believe that "separately identifiable" should be limited to risk components that are contractually specified? Why or why not?

We do not believe that "separately identifiable" should be limited to risk components that are contractually specified. While the commodity price component is not specified in our forward commodity sales contracts, we believe the commodity price risk component of these contracts is quite commonly readily and reliably determinable and is actively managed in the actual risk management activities of our business. For example, the commodity price risk component for many agriculture commodities underlying our contracts can be determined from well-established organized exchanges such as the Chicago Board of Trade.

Q13. 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 believe that allowing individually eligible hedged items to be hedged collectively as a group will result in financial statements that more accurately reflect the economics of our risk management activities and use of derivatives. To reduce commodity price risk due to market fluctuations, Cargill generally follows a policy of using exchange-traded futures and exchange-traded and over-the-counter option contracts to minimize our net position of merchandisable

agricultural inventories and forward cash purchase and sale contracts. It is a longstanding business practice of Cargill to manage our commodity price risk on a group basis as a net position instead of on an individual contract basis due to the volume of contracts that we have and the fungible nature of our agricultural commodities.

Q17. 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?

We do not foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting. We support the IASB's proposal to allow entities to proactively rebalance their hedging relationships as it would more closely align hedge accounting with risk management activities. While our risk management objective does not typically change, we are continually rebalancing our hedging relationships as our overall view of the market risks changes and as our net position changes due to various factors such as receipts, deliveries and other contract activities. We believe that the ability to rebalance would result in financial statements that more accurately reflect the dynamic and constantly changing hedging strategies of our company and other companies in our industry.

Q23. Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to US GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to US GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standard?

Providing that the "own use" vs. "normal purchase/normal sale" differences discussed below, can be appropriately resolved, we believe that the IASB proposal provides a superior starting point for changes to US GAAP. We believe that the conceptual basis for the IASB's proposal is superior to the current standards of both Boards, which treat risk components of non-financial items and financial items differently. The majority of our derivatives are non-financial, agricultural commodity-related items. We view and manage agricultural commodity price risk components very similarly to the way a financial institution views and manages the benchmark interest rate risk components of financial instruments, and we believe that similar hedge accounting treatment should be available to us.

We agree with the purpose and direction of the IASB's proposed amendments to paragraph 8 of IAS 32 and paragraph 5 of IAS 39 ("own use" amendments), which change the scope of the IFRS standards to include a contract that was entered into and continues 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 proposed "own use" amendments would resolve an accounting mismatch for our subsidiaries currently reporting under IFRS, as well as resolve a difference between current US GAAP and IFRS that is of significant concern to us. However, we believe that providing an accounting election for the application of the "own-use" amendment, similar to the "normal purchase/normal sale" election available under current US GAAP, would provide a better solution. In certain cases, a commodity position risk is managed internally on a fair value basis, but an element of the position, such as a commodity inventory, may not qualify for fair value accounting treatment. In such cases, an accounting mismatch would be created if derivative accounting is required for the related contracts.