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April 26, 2011

Via Email [director@fasb.org](mailto:director@fasb.org)

Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
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P.O. Box 5116  
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**File reference: 2011-175 Selected Issues about Hedge Accounting (Including IASB Exposure Draft, *Hedge Accounting*)**

Archer Daniels Midland (ADM) is one of the world's largest agricultural processing companies, with over \$60 billion in annual revenues and employing more than 30,000 people globally. ADM is a large accelerated SEC filer preparing audited US GAAP consolidated financial statements, and its stock is listed on the New York and Frankfurt stock exchanges. ADM conducts its business in more than 60 countries and has many global subsidiaries which prepare local statutory financial statements under IFRS or other local GAAP.

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

We strongly support the IASB's proposed objective to align hedge accounting 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. A significant portion of our derivatives are non-financial, agricultural commodity-related items. We view and manage agricultural 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 believe these proposals are consistent with the proposed objective of hedge accounting and would potentially allow ADM increased ability 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.

We are keenly interested in the ultimate resolution of a current difference between the FASB and IASB standards as it relates to what is commonly referred to as the "normal purchase/normal sale" election in US GAAP, and referred to as the "own use exception" in IFRS. We support the purpose and direction of the IASB's proposed amendments to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, 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.

In our comments to the IASB supporting this approach, we have recommended that the final wording of these amendments be exposed for public comment to allow for evaluation and sufficient due process. The IASB's proposed amendments would require such contracts to be accounted for as derivatives if that accounting is in accordance with the entity's underlying business model and how the contracts are managed. Commodity price risk management is a significant part of our business activity. The proposed "own use" amendments would resolve an accounting mismatch for our subsidiaries currently reporting under IFRS, as well as resolving a difference between current US GAAP and IFRS that is of significant concern to ADM. While eliminating an accounting mismatch in the majority of cases, rigidly requiring this treatment, rather than treating it as an election as it is in US GAAP, could create an accounting mismatch in certain other cases. If the IASB standards with respect to this issue were to be adopted by the FASB, we believe that permitting, rather than requiring, application of the amendment would provide a better solution, and be consistent with the current "normal purchase/normal sale" election in current US GAAP.

Appendix 1 to this letter provides our detailed responses to selected Questions for Respondents included in the Discussion Paper. For your reference, we have also provided as Appendix 2 a copy of our comment letter to the IASB on the exposure draft.

Thank you for consideration of our views. We would be pleased to discuss our comments with the FASB or its staff.

Sincerely,

A handwritten signature in dark ink, appearing to read 'John P. Stott', with a stylized flourish extending to the right.

John P. Stott  
Vice-President and Controller

## **Appendix 1 - Responses to selected specific questions**

### **Risk Management**

*Q1. 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?*

We support disclosures that provide information about historical derivative activities and qualitative descriptions of significant economic hedging objectives, without regard to whether hedge accounting has been employed. However, we have serious concerns about disclosing proprietary and competitively sensitive information about projected quantitative effects of our hedging strategies.

The IASB proposal includes a disclosure that breaks down, for each subsequent period that the hedging relationship is expected to affect profit or loss, the quantity of risk exposure, the quantity that is being hedged, and, in quantitative terms, how hedging changes the risk exposure. ADM disagrees with the level of detail of these proposed disclosures. We believe this information is proprietary, competitively sensitive, and too complex. Requiring the breakdown of positions for each subsequent period would publicly provide a level of detailed information about ADM's risk management positions that could cause the Company serious harm, especially considering that many other market participants, some even larger than ADM, do not publish public financial statements. Complying with these proposals appears to require projection of future commodity markets' behavior, which we believe would not be reliable or auditable information. ADM is concerned that due to the Company's size, these detailed disclosures could have unintended effects on the agricultural commodity markets. We also believe that these proposed disclosures would not provide useful and reliable data to users. Because commodity risk positions can change significantly on a daily basis, the information would be out of date at the time of its publication and could be misleading to users. See also our response to IASB Question 13 in Appendix 2.

*Q2. 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 transactional level, and how to determine the appropriate level of documentation required? Why or why not?*

The IASB proposes that "the objective of hedge accounting is to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss". We do not foresee any difficulties in applying that notion of risk management activities to our activities.

ADM enters into a large number of agricultural commodity forward purchase and sale contracts. To reduce price risk due to market fluctuations, the Company generally follows a policy of using exchange-traded futures and exchange-traded and over-the-counter option contracts to minimize its net position of merchandisable agricultural inventories and forward cash purchase

and sale contracts. The Company will also use exchange-traded futures and exchange-traded and over-the-counter option contracts as components of merchandising strategies designed to enhance margins. Many of these contracts meet all the criteria to be derivatives, except that to the extent they can be identified as being held for “own use” they are currently scoped out of IAS 39. Under US GAAP, derivative accounting applies to these contracts.

*Q3. 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?*

ADM does not anticipate its economic risk management activities changing significantly if the IASB proposals would be adopted for US GAAP purposes. Economic hedges of risk components for commodities and net commodity positions are longstanding activities in our industry, pre-dating SFAS 133. In our view, the proposed changes will allow hedge accounting to better reflect these long-standing economic activities. Certain accounting hedge program documentation involving agricultural commodities would likely change to reflect the application of risk component hedging. We believe these changes would be a significant improvement in aligning accounting hedge programs with the actual economic risk management activities for certain agricultural commodities.

*Q4. Do you foresee any significant auditing issues arising from the proposed articulation of risk management and its link to hedge accounting? For example, is the information required to be disclosed regarding an entity's risk management strategies measurable and objective? Could the inclusion of an entity's risk management objectives create an expectation gap that the auditor is implicitly opining on the adequacy of an entity's risk management objectives?*

As stated in our response to Question 1, we are opposed to the IASB proposed disclosures. Further, we believe detailed qualitative disclosures regarding articulation of risk management strategies and the link to hedge accounting are better suited for inclusion in management's discussion and analysis, outside of the audited financial statements.

#### **Hedged Items - Overall**

*Q6. 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 or loss that are not permitted to be bifurcated)? If not what additional guidance should be provided?*

We view the proposed guidance as sufficient. However, if further guidance is deemed necessary, we prefer that any Board-intended constraints be clearly stated and explained, to avoid subsequent second-guessing of preparers. We do not believe that risk components must be contractually specified in order to be separately identifiable. Existing US GAAP literature already contains the concept of “clearly and closely related”. This concept includes not being

extraneous to an ingredient or direct factor in the customary or specific production of the asset (ASC 815-10-15-32).

### **Hedged Items – Risk Components**

*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, without requiring contract specification. We believe that certain commodity risk components of our agricultural commodity contracts are separately identifiable and reliably measureable. The IASB proposal aligns with ADM's longstanding actual risk management practices and we believe it would potentially result in a significant improvement in hedge accounting standards as applied to our industry. 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 agricultural companies to economically hedge the commodity price risk component of the elements of their net positions, made up of physical long positions in commodity inventories and forward purchase and sale contracts. Although ADM and the agricultural processing industry uses fair value measurement through net income as its most common practice to account for agricultural 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. For example, ADM uses cocoa bean futures contracts to economically hedge the cocoa bean component of cocoa butter forward sale contracts. If hedge accounting could be applied to reflect this risk management practice, we believe that financial reporting for this business activity would be improved. ADM believes that hedge accounting should be available to reflect actual risk management activity of its businesses in its financial statements.

*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 risk components must be contractually specified in order to be separately identifiable. We believe principles-based guidance would be more appropriate for the identification of risk components than constraining risk components to those that are contractually specified. A principles-based approach would acknowledge that risk components can vary depending upon the nature of the hedging relationship, while being consistent with the IASB "other than accidental" threshold for hedge accounting.

Commodity price risk components of non-financial instruments, such as forward cash commodity purchase and sale contracts, are quite commonly readily and reliably determinable and are actively managed in the actual risk management activities of our industry. The commodity price component risk is often not specified in our commodity contracts. The contract price could also include freight, basis, insurance and other components. The commodity price

risk component for many agricultural commodities underlying our contracts can be determined from well-established organized exchanges such as the Chicago Board of Trade (CBOT). ADM believes that it views and manages these 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.

In our prior comments to the IASB on the exposure draft (response to IASB Question 4 in Appendix 2), we requested clarification on whether the “sub-LIBOR” issue is relevant to commodities. We believe it should not apply. For example, the price for a contract to deliver corn to a particular location could be less than the price to deliver to the location referenced in the standard futures contract. We do not believe this systematic negative spread should bar the designation of an accounting hedging relationship. As another example, in many cases in our industry, a commodity input is processed into more than one output product, which may also be commodities. When cocoa beans are processed, cocoa butter and cocoa liquor are produced. We believe that it would be appropriate to consider the price risk of the physical input, appropriately sized, as a risk component of the output.

### **Hedged Items – Aggregated Exposures and Groups of Items**

*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 support allowing hedge accounting for a net position of partially offsetting cash instruments, because we believe it reflects actual economic risk management activities of our industry. Economically hedging net positions is a common practice in our industry. For example, “board crush” is a term used to describe a combination of instruments that combines CBOT futures contracts in standard proportions, typically long soybeans and short soybean meal and soybean meal and oil. Board crush options are a listed instrument on the CBOT. Allowing hedge accounting for net crush positions would result in a better reflection of our economic hedging activities, and we see no reason why the hedge accounting model can’t reasonably accommodate these real-world, economically-valid hedging strategies.

### **Hedge Effectiveness**

*Q14. 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 do not foresee any significant operational concerns. We support the proposed changes to adopt more qualitative, principles-based and less “bright-line” hedge accounting effectiveness qualifying criteria. We believe that our economic hedging programs are designed to produce an unbiased result and minimize ineffectiveness. For example, we believe that there is no better hedging instrument for the price risk on purchases of corn than the standard futures contract for corn that is traded on the CBOT. While there will be basis differences due to local delivery points that are different than that specified by the standard futures contract, and local supply

and demand imbalances, these differences do not produce systematic bias and there is no better hedging instrument available. ADM believes the “other than accidental” threshold will allow it to apply hedge accounting in more cases, resulting in financial statements that better match the underlying economics of its businesses. See our response to IASB Question 7 in Appendix 2.

### **Changes to a Hedging Relationship**

*Q16. 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?*

*See response to Questions 16 and 17 below.*

*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 believe that the need for rebalancing and determining whether a change in risk management strategy has occurred will differ, based on the nature of the hedge relationship. We believe these factors can be adequately addressed in hedge program documentation, without the need for more prescriptive guidance. If additional guidance is provided, we prefer guidance that expects qualitative factors and management intent to outweigh mathematical models and arbitrary measurements of precision.

### **Hedge Accounting and Presentation**

*Q19. 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?*

*See combined response to questions 19-21 below.*

*Q20. 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?*

*See combined response to questions 19-21 below.*

*Q21. Do you believe that there is sufficient guidance to specifically link the hedging adjustments to the hedged assets and liabilities that compose a hedge net position with respect to presenting a separate line item in the statement of financial position?*

ADM believes these proposals are unnecessarily complex and therefore inconsistent with one of the main goals of the exposure draft. We suggested in our response to Question 9 in the IASB exposure draft (Appendix 2 to this letter) that current footnote disclosure under US GAAP

provides appropriate information for the users of financial statements without adding detail to the financial statements themselves.

## **Disclosures**

*Q22. 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 disclosures in the notes to the financial statements rather than in other information in documents containing the financial statements? Why or why not?*

As discussed in our response to Question 4, ADM has serious concerns about disclosing proprietary and competitively sensitive information about projected quantitative effects of our hedging strategies. This requirement appears to require projections about future market behavior, and we are concerned whether such projections are reliable and whether they would be auditable. If such disclosures were to be required, which we oppose, we believe they would be better suited to being provided outside of the audited financial statements, such as MD&A in SEC reports.

## **Other**

*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 can be appropriately resolved, as discussed in our cover letter and in our response to IASB Question 14 in Appendix 2, ADM believes 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, commodity-related items. ADM views and manages 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 encourage both Boards to jointly deliberate the comments received from all three public releases concerning hedge accounting and reach a converged standard on this important topic. In ADM's view, achieving converged standards on this topic would be an important step toward an eventual move to a single global set of high-quality accounting standards.





## **Appendix 2**

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March 9, 2011

International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom  
RE: Hedge Accounting Exposure Draft ED/2010/13

Archer Daniels Midland (ADM) is one of the world's largest agricultural processing companies, with over \$60 billion in annual revenues and employing more than 30,000 people globally. ADM is a large accelerated US SEC filer, preparing audited US GAAP consolidated financial statements, and its stock is listed on the New York and Frankfurt stock exchanges. ADM conducts business in more than 60 countries and has many global subsidiaries which prepare local statutory financial statements under IFRS or other local accounting standards.

ADM appreciates the opportunity to provide comments on the Board's Hedge Accounting exposure draft. We support the Board's efforts to develop high quality, globally consistent accounting standards and have keen interest in the IASB and FASB convergence activities with respect to derivative and hedge accounting.

Overall, we support the standard's proposed objective to align hedge accounting with an entity's risk management activities. In particular, we support:

- The purpose and direction of the proposed amendments to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, which change the scope of the 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. We recommend the final wording of these amendments be exposed for public comment to allow for evaluation and sufficient due process. The proposal would require such contracts to be accounted for as derivatives if that accounting is in accordance with the entity's underlying business model and how the contracts are managed. Commodity price risk management is a significant part of our business activity. The proposed amendments would resolve an accounting mismatch for our subsidiaries currently reporting under IFRS, as well as a resolving a difference between current US GAAP and IFRS that is of significant concern to ADM as we

look forward to a possible adoption of IFRS in the US. While eliminating an accounting mismatch in the majority of cases, rigidly requiring this treatment could create an accounting mismatch in certain other cases. We believe that permitting, rather than requiring, application of the amendment would provide a better solution and be consistent with US GAAP. We also believe this specific own-use contract scope change must be retrospectively applied upon its effective date to achieve comparable financial reporting for all periods presented.

- ADM supports the Board's proposed changes to adopt more qualitative principle-based and less "bright-line" hedge accounting qualifying criteria. We also generally support the proposals that would qualify more types of items, including groups of items and risk components, as hedged items and hedging instruments. We believe these proposals are consistent with the proposed objective of hedge accounting and would potentially allow ADM increased ability 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.
- Finally, while we are very supportive overall of the many improvements in financial reporting for hedging and risk management activities outlined in the exposure draft, we think further clarification is needed for certain aspects of the proposals. Our specific comments are included in our responses to certain of the detailed questions which are attached.

Thank you for your consideration of our views.

Sincerely,

A handwritten signature in black ink, appearing to read "John P. Stott", with a long horizontal line extending from the end of the signature.

John P. Stott  
Vice-President and Controller

**ADM - Detailed responses to selected Hedge Accounting Exposure Draft questions**

***Q1. Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?***

ADM agrees with the proposed objective of hedge accounting. We support providing the users of our financial statements with the most accurate information possible, faithfully representing our actual business and risk management activities. Risk management, predominately commodity price risk management, is a significant business activity for ADM.

***Q2. 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? Why or why not? If not what changes do you recommend and why?***

ADM agrees with this proposal because it would allow hedge accounting to reflect actual risk management practices and, therefore, achieve improved financial reporting for those activities.

***Q4. 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 (i.e. a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?***

ADM supports this proposal. This proposal aligns with ADM's longstanding actual risk management practices and we believe it would potentially result in a significant improvement in hedge accounting standards as applied to our industry. 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 agricultural companies to economically hedge the commodity price risk component of the elements of their net positions, made up of physical long positions in commodity inventories and forward purchase and sale contracts. Although ADM and the agricultural processing industry uses fair value measurement through net income as its most common practice to account for agricultural 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. For example, ADM uses cocoa bean futures contracts to economically hedge the cocoa bean component of cocoa butter forward sale contracts. If hedge accounting could be applied to reflect this risk management practice, we believe that financial reporting for this business activity would be improved. ADM believes that hedge accounting should be available to reflect actual risk management activity of its businesses in its financial statements. Commodity price risk components of non-financial instruments such as forward cash commodity

purchase and sale contracts are quite commonly readily and reliably determinable and are actively managed in the actual risk management activities of our business. For example, the commodity price risk component for many agricultural commodities underlying our contracts can be determined from well-established organized exchanges such as the Chicago Board of Trade. ADM believes that it views and manages these 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.

We request clarification on whether the "sub-LIBOR" issue is relevant to commodities. We believe it should not be relevant. For example, the price for a contract to deliver corn to a particular location could be less than the price to deliver to the location referenced in the standard futures contract. We do not believe this systematic negative spread should bar the designation of an accounting hedging relationship. As another example, in many cases in our industry, a commodity input is processed into more than one output product, which may also be commodities. When cocoa beans are processed, cocoa butter and cocoa liquor are produced. We believe that it would be appropriate to consider the price risk of the physical input, appropriately sized, as a risk component of the output.

**Q5.**

- 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? Why or why not? If not what changes do you recommend and why?*

ADM agrees with the proposal to allow a layer of a nominal amount of an item to be designated as the hedged item. This would allow a hedge accounting relationship to be designed in a more precise way and in some circumstances could better reflect economic results of actual risk management practices. The ability to designate a layer as a hedged item may also be necessary to support the designation of items in a net position hedge of a dynamic position, in order to designate the layer of each component that will be recognized in earnings during the same time period.

*Q6. Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?*

We support the Board's proposed changes to adopt more qualitative principles-based and less "bright-line" hedge accounting effectiveness qualifying criteria. We believe that our economic hedging programs are designed to produce an unbiased result and minimize ineffectiveness. For example, we believe that there is no better hedging

instrument for the price risk on purchases of corn than the standard futures contract for corn that is traded on the Chicago Board of Trade. While there will be basis differences due to local delivery points that are different than that specified by the standard futures contract, and local supply and demand imbalances, these differences do not produce systematic bias and there is no better hedging instrument available. ADM believes the "other than accidental" threshold will allow it to apply hedge accounting in more cases, resulting in financial statements that better match the underlying economics of its businesses. In the normal course of business, ADM's risk management processes use exchange-traded futures and exchange-traded and over-the-counter option contracts as components of merchandising strategies to enhance margins and to minimize the Company's net position of merchandisable agricultural commodity inventories and forward cash commodity purchase and sale contracts. In some cases, ADM's risk management processes deploy strategies that it believes achieve highly effective economic hedges of its results specific to certain commodity positions; however, because of limitations of current accounting rules, hedge accounting is not allowed. In addition, volatility of prices of hedging instruments relative to spot prices of commodities leads to varying levels of calculated effectiveness with respect to accounting for cash flow hedges. We expect the proposed threshold will appropriately allow ADM to maintain hedge accounting in certain situations when such point-in-time volatility may lead to calculations indicating hedging relationships that are less than highly effective. In these situations, we believe that applying hedge accounting to the derivatives while also recording hedge ineffectiveness best reflects our risk management strategy and portrays the most complete story to the users of our financial statements.

Q8.

- a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?
- 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? Why or why not? If not, what changes do you recommend and why?

ADM agrees that accounting hedges should be discontinued on a prospective basis when the hedge relationship no longer meets the qualifying criteria. We do not agree with the proposal to totally preclude voluntary discontinuation of hedge accounting if the risk management objective continues to be met. We favor an option to discontinue hedge accounting, with required robust footnote disclosure of the circumstances

justifying this approach if the option is used. We believe this proposal is inconsistent with the voluntary nature of hedge accounting. In addition, there may be situations in which the original risk management objective does not change, but new exposures arise that change the optimal risk management strategy. For example, a new exposure could provide a natural offset to the original exposure which could eliminate the need for hedge accounting.

**Q9.**

- a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognized in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?*
- 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? Why or why not? If not, what changes do you recommend and why?*
- c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?*

ADM believes these proposals are unnecessarily complex and therefore inconsistent with one of the main goals of the exposure draft. As an alternative approach, we believe that current footnote disclosure under US GAAP provides ample information for the users of financial statements without adding detail to the financial statements themselves.

**Q11.** *Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?*

ADM supports allowing hedge accounting for groups of items and net positions. Net position hedging is a common risk management practice in the agricultural processing industry, and we believe that hedge accounting that reflects these actual risk management practices should be available as a way to appropriately reflect the financial results of these activities in ADM's financial statements. When the risk management practices of the business operate on a net position basis, it becomes very difficult and at times impossible to apply traditional hedge accounting under current accounting rules, because it is impossible or arbitrary to identify a particular unique asset or liability to which a hedging instrument relates. The actual risk management practices of the business consider all of the naturally offsetting risks and typically ADM enters into hedging instruments to hedge the remaining net risk position. The ability to designate layers may be necessary in order to operationally apply a net risk position hedge.

Paragraph 34 (c) narrows the application, for cash flow hedging only, to offsetting cash flows that affect profit or loss in the same reporting period and only that period. ADM does not agree with this portion of the proposal, and supports going further, allowing hedge accounting to be applied to a dynamic net position, because that approach would better reflect our actual risk management practices in certain situations.

*Q12. 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 (e.g., in a net position hedge), any hedging instrument gains or losses recognized in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?*

ADM generally does not support this proposal. We believe it introduces additional complexity and could lead to confusion among financial statement users. In relation to Q11 and Q12, we would highlight that net position hedges are not a new concept; only the proposed hedge accounting for them is new. As an alternative approach, we believe the current footnote disclosure of fair value measurements required by US GAAP is adequate to provide users with information about the results of fair value measurement in the financial statements and how the impacts of any net positions have been reported.

*Q13.*

- a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?*
- b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?*

ADM disagrees with the level of detail of the disclosures proposed in paragraphs 46 (a-c). We believe these disclosures are both too extensive and too complex. In addition, requiring the breakdown of positions for each subsequent period would publicly provide a level of detailed information about ADM's risk management positions that could cause the Company serious competitive harm, especially considering that many other market participants, some even larger than ADM, do not publish public financial statements. ADM is also concerned that due to the company's size, these detailed disclosures could have unintended effects on the agricultural commodity markets.

ADM also believes that the proposed disclosures would not provide reliable data to users. Because commodity risk positions can change significantly on a daily basis, the information would be out of date and could be misleading to users.

***Q14. 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? Why or why not? If not, what changes do you recommend and why?***

ADM agrees with the proposed amendments to change the scope of the 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 proposal allows such a contract to be accounted for as a derivative if that accounting is accordance with the entity's underlying business model and how the contracts are managed. Commodity price risk management is a significant part of our business activity. The proposed amendments would resolve, in most cases, a significant difference between current US GAAP and IFRS that is of significant concern to ADM as we carry out local statutory reporting under IFRS and look forward to a possible adoption of IFRS in the US. However, we believe that providing an accounting election for the application of the amendment, similar to 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 inventory, may not qualify for fair value accounting treatment. In such cases, an accounting mismatch would be created by scoping related contracts into derivative accounting on a mandatory basis.

We believe that the proposed scope changes to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, as outlined in Appendix C, must be applied retrospectively to all comparative periods presented in order to achieve comparability of the financial statements. We find the guidance in the exposure draft to be unclear on this point. We also believe the final wording of the proposed scope amendments should be exposed for comment to allow for full evaluation and sufficient due process.

ADM enters into a large number of agricultural commodity forward purchase and sale contracts. To reduce price risk due to market fluctuations, the Company generally follows a policy of using exchange-traded futures and exchange-traded and over-the-counter option contracts to minimize its net position of merchandisable agricultural inventories and forward cash purchase and sale contracts. The Company will also use exchange-traded futures and exchange-traded and over-the-counter option contracts as components of merchandising strategies designed to enhance margins. Many of these contracts meet all the criteria to be derivatives, except that to the extent they can be identified as being held for "own use" they are currently scoped out of IAS 39. Under US GAAP, derivative accounting applies to these contracts.



***Q16. Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?***

ADM believes that the proposed scope changes to paragraph 8 of IAS 32 and paragraph 5 of IAS 39, as outlined in Appendix C, must be applied retrospectively to all comparative periods presented, in order to achieve comparability of its financial statements. As stated earlier, these scope changes are of significant concern for ADM for achieving IFRS financial statements that appropriately represent its financial position and results of operations. ADM believes the guidance in the exposure draft is unclear on this point and should be clarified in the final standard.

ADM agrees with the prospective transition method with respect to hedge accounting changes and also agrees with the option for early adoption.

***Other comments***

ADM disagrees with the proposed accounting for cash flow hedges that would account for derivative transactions as if they were 100% effective at hedging the underlying transactions and recognizes ineffective hedging results in earnings for both under-hedges and over-hedges. ADM prefers the current accounting model, which recognizes in current earnings only over-hedged results. ADM believes that continuing to only recognize over-hedging ineffectiveness immediately in earnings provides a better matching relationship between the hedge results and the underlying hedged item, which in many cases better matches sales and cost of products sold.