



September 21, 2007

Mr. Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 28

File Reference: Proposed Issue E23

Dear Mr. Golden:

Deloitte & Touche LLP ("Deloitte & Touche") is pleased to comment on Proposed Statement 133 Implementation Issue No. E23, "Hedging—General: Issues Involving the Application of the *Shortcut Method* under Paragraph 68" (the "Proposed Issue").

We support the Board's efforts to clarify application of the shortcut method. However, the Board should consider this project in the context of the timeline for finalizing its broader project on accounting for hedging activities. If the Board expects to finalize its hedging activities project in the near future, it should consider whether the incremental benefit to be gained from issuing this clarifying guidance in the short term outweighs the additional transition costs that could be incurred if entities first must adopt this proposed guidance, then subsequently have to adopt new hedging guidance that the Board may issue.

If the Board determines that its broader project on accounting for hedging activities is a long way from becoming final and that it is appropriate to provide specific clarifications on FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("Statement 133"), we support issuance of the Proposed Issue as a final Implementation Issue. The Board also should consider issuing with this guidance additional narrow clarifications on other aspects of hedge accounting that cause difficulty and result in diversity in current practice. Areas in need of further clarification include application of the critical terms match criteria described in paragraph 65 of Statement 133; the methods of measuring ineffectiveness for cash flow hedges described in Statement 133 Implementation Issue No. G7, "Cash Flow Hedges: Measuring the Ineffectiveness of a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied"; and the method described in paragraph 120C of Statement 133 for determining what portion of the total change in fair value of a hedged item is attributable to changes in the benchmark interest rate.

Our comments below highlight areas of the Proposed Issue that we believe require additional clarification or amplification. The appendix to this letter contains additional editorial suggestions that the Board may wish to consider.

Clarification of Amendment to the Introductory Section of Paragraph 68

The wording of the amendment literally suggests that the hedged item would be either the interest-bearing asset or liability or a firm commitment spanning between the trade date and settlement date for such interest-bearing asset or liability, rather than both the firm commitment and the asset or liability that would be recognized upon execution of the firm commitment.

The Board should consider revising the language in paragraph 68 of Statement 133 as follows (revisions in **bold and underlined**):

An assumption of no ineffectiveness is especially important in a hedging relationship involving an interest-bearing financial instrument and an interest rate swap because it significantly simplifies the computations necessary to make the accounting entries. If all of the applicable conditions in the following subparagraphs are met, An entity may assume no ineffectiveness in a **fair value or cash flow** hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability **(including any related firm commitment arising on the trade date to issue or purchase the designated interest-bearing asset or liability provided that the trade date of the asset or liability differs from its settlement date due to generally established conventions in the marketplace in which the transaction is executed)** and an interest rate swap (or a compound hedging instrument composed of an interest rate swap and a mirror-image call or put option as discussed in paragraph 68(d) below) ~~if all of the applicable conditions in the following list are met.~~

The Board also should consider revising the Proposed Issue's description of changes to paragraph 68 (and its "Basis for Conclusions") to clarify that the shortcut method may also be applied to qualifying cash flow hedges.

Deloitte & Touche appreciates the opportunity to comment on the Proposed Issue. If you have any questions concerning our comments, please contact Robert Uhl at (203) 761-3152.

Yours truly,

Deloitte & Touche LLP

Suggested Editorial Changes

- The Proposed Issue’s description of changes to the introductory section of paragraph 68 of Statement 133 (numbered paragraph 1) states, in part “[O]f both the swap and the hedged item (for example, debt) **even though** the hedged item is not recognized for accounting purposes until the transaction settles (that is, until its settlement date) . . .” [Emphasis added] The words “even though” imply that settlement-date accounting is a generally required accounting practice and should be replaced with “even if”, since some entities may use trade-date accounting.
- The Proposed Issue’s description of changes to paragraph 68(b) of Statement 133 (numbered paragraph 3) refers to “the entity’s primary market”. The Board should replace this phrase with “the entity’s principal market” to conform to FASB Statement No. 157, *Fair Value Measurements*.
- Certain changes listed in the Proposed Issue’s description of amendments to paragraph 68(e) of Statement 133 (specifically, numbered paragraphs 5 and 6) apply only to fair value hedges. Describing these changes under the paragraph 68(e) subheading may confuse some readers, since paragraph 68(e) applies to both cash flow hedges and fair value hedges. The Board should consider presenting these paragraphs as subparagraphs to numbered paragraph 4 and should indicate that these concepts are examples of the impact of applying the guidance in numbered paragraph 4. By changing the presentation of these paragraphs, the description of amendments to paragraph 68(e) of Statement 133 will be consistent with wording of the actual amendment to paragraph 68(e).
- Numbered paragraph 7 under the Proposed Issue’s description of changes to paragraph 68(e) appears unnecessary since a hedge of a zero-coupon financial instrument would not meet the requirements described in numbered paragraphs 2 and 5.
- In the “Effective Date and Transition” section, the third sentence of the second paragraph should be edited as follows (additions underlined):

If the hedging relationship had been a fair value hedge, the recognition in earnings due to adjustment of the carrying amount of the hedged asset or liability for the period prior to the effective date shall not be reversed upon adoption.

The suggested edit clarifies that this sentence does not override the requirements of paragraph 24 of Statement 133.