



LETTER OF COMMENT NO.

33

Merck & Co., Inc.  
One Merck Drive  
P.O. Box 100  
Whitehouse Station, NJ 08889-0100



September 21, 2007

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

Re: Proposed Issue E23

Dear Mr. Golden:

Merck & Co., Inc. is a New Jersey based corporation with its principal place of business at One Merck Drive, P.O. Box 100, Whitehouse Station, New Jersey 08889-0100. The Company is a global research-driven pharmaceutical products organization that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health. We are pleased to provide you with our comments on Statement 133 Implementation Issue No. E23 "Hedging-General: Issues Involving the Application of the *Shortcut Method* under paragraph 68".

We support the Financial Accounting Standard Board's (FASB) efforts to provide clarifying guidance relating to certain conditions, identified in paragraph 68 of FASB Statement No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, which must be met in order for an entity to assume no ineffectiveness in a hedging relationship of interest rate risk involving a recognized interest bearing asset or liability and an interest rate swap. Although we are in general agreement with most of the conclusions in the proposed Implementation Issue, we do not agree with the conclusion reached that a fair value hedging relationship that begins subsequent to initial recognition of the hedge item ("late hedges") would not meet the requirements of paragraph 68(e) of FAS 133 and have some concerns with the transition provision and effective date specified in the proposed guidance. Furthermore, this Implementation Issue was intended to clarify the application of the *Shortcut Method*, however, the late-hedging aspect of the proposed Implementation Issue would represent a significant amendment to the requirements of applying the *Shortcut Method* and arguably is beyond the scope of clarification.

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Merck & Co., Inc. uses interest rate swap contracts on certain borrowing transactions to manage its net exposure to interest rate changes as well as to reduce its overall cost of borrowing. Based on risk management objectives and changing market conditions, some of these interest rate swap contracts are executed after the issuance of the fixed rate debt.

As you know, the *Shortcut Method* was developed and incorporated into FAS 133 to simplify the computations and accounting for common and relatively simple interest rate risk management practices. There were significant and valid concerns that the "long-haul" computation methods of assessing effectiveness and measuring ineffectiveness of a simple fair value hedge of interest rate risk did not provide the appropriate balance between cost and benefit. We are concerned that the elimination of the *Shortcut Method* for late hedges may significantly discourage prudent economical risk management practices, as companies try to avoid the complexities, administrative burdens, and costs imposed by the long-haul method.

The clarification made in the proposed Implementation Guidance that the fair value of the hedged item must equal its principal amount (thus disqualifying shortcut treatment for late hedge transactions) appears contrary with the current guidance in FAS 133. In our view, paragraph 68 of FAS 133 does not include any specific condition that the fair value of the hedge item must equal its principal amount. Furthermore, the footnote to paragraphs 115 and 134 states that the trade date of the swap and the borrowing date of the debt "*need not match for the assumption of no ineffectiveness to be appropriate*". As a result, we believe that FAS 133 has always expressly permitted late hedging and decisions by the current Board to eliminate this would represent a significant amendment to the requirements of qualifying for the *Shortcut Method* under FAS 133 rather than clarification guidance.

**Transition and Effective Date:**

Absent reconsideration of these issues at this time, we encourage the FASB to consider the cost-benefits of having the transition guidance be applied on a prospective basis for new derivatives only. We also request the FASB provide clarification on the transition provisions contained in DIG E23. Upon dedesignation and redesignation of an existing late hedging relationship, it is our presumption that the fair value of the derivative would not be zero, thus creating an element of ineffectiveness, which may result in the new hedge relationship not meeting the applicable requirements for hedge accounting under FAS 133. We do not think this was the intention of the FASB.

We would also suggest a longer implementation period of at least twelve months, as it may not be reasonable that reporting entities can transition from the *Shortcut Method* to a long-haul approach in the time period stipulated in the proposed Implementation Issue.

Thank you for the opportunity to provide comments on the proposed Implementation Issue. We would be pleased to discuss our views with you at your convenience.

Sincerely,

/s/ John C. Canan

John C. Canan  
Vice President, Controller  
Merck & Co., Inc.

cc: M. E. McDonough - Vice President and Treasurer