

## **Robert Axel**

Mio. Fresident: Chief Accountant

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Larry Smith
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk CT 06856-5116



Re: Proposed Statement 133 Implementation Issue No H17

Dear Mr. Smith:

Prudential Financial is pleased to have this opportunity to comment on the FASB's proposed Statement 133 Implementation Issue No. H17. We do not support the proposed issue for many of the same reasons outlined by the three dissenting FASB members in the final deliberations of the proposed issue. Most specifically, we believe that the criteria of paragraph 29(c) are met in the example outlined in the proposed issue and we believe that the effectiveness of a cash flow hedge is assessed based on achieving offsetting cash flows attributed to the hedged risk; therefore hedge accounting should be permitted. We understand many financial statement users and preparers share these views.

In addition, we offer the following comments:

- We believe the proposed issue will increase costs of hedging for most companies as
  companies continue to hedge transactions on a forecasted basis but will now be
  required to terminate their original hedge and re-strike a new hedge upon recognition
  of the forecasted liability in order to achieve hedge accounting. This re-striking
  results in additional transaction and operational costs with no economic benefit.
- The issue does not address the practical issues around settlement timing that generally exist with foreign currency transactions. For example, to reduce or eliminate settlement failures on a foreign currency debt issuance, a company may contract spot and forward currency agreements or cross currency swap agreements a few days prior to the debt issuance. Under the proposed guidance it appears such forward agreement transactions done in advance of such settlement would not qualify for hedge accounting prima facie. We do not believe this is the Board's intent.

- A number of companies hedge forecasted foreign currency investments (e.g. originations of private debt securities) similarly to the hedging of forecasted issuance of debt in a foreign currency. If the FASB intends to adopt the proposed issue, we ask that it be clear in the final draft as to whether the issue applies to all forecasted foreign currency transactions (asset or liability) that are not recognized from a currency perspective under SFAS 52 or other accounting standard. This will help minimize future questions on the practical application of the issue and help address some of the FASB members' concerns about dealing with what is perceived by some to be a relatively narrow interpretive issue.
- We believe the proposed issue continues a trend in policy and practice of narrowing
  interpretations around hedge accounting that only serves to continue to procreate
  "interpretive paranoia" around SFAS 133 leading to increased infrastructure and audit
  costs without a corresponding benefit.
- Lastly, given the strength and merits of the alternative view stated by a minority of FASB members, if the issue is adopted in its current form, we would suggest that the issue be adopted on a prospective basis for new hedging transactions as opposed to the transition method proposed in the issue.

Once again, Prudential Financial appreciates the opportunity to express its views on this important issue. Should you have any questions on our comments please do not hesitate to contact me.

Sincerely.

Robert Axel.

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Vice President, Chief Accountant