



AT&T Inc.
175 E. Houston
San Antonio, Texas 78205



September 21, 2007

LETTER OF COMMENT NO. 26

Mr. Russell G. Golden
Financial Accounting Standards Board
401 Merritt 7
P.O. BOX 5116
Norwalk, CT 06856-5116

Re: File Reference: Proposed Issue E23

Dear Mr. Golden:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Exposure Draft of DIG Issue E23 (the "exposure draft") which amends and clarifies issues involving the application of the *shortcut method* under paragraph 68 of FASB Statement No. 133. AT&T ranks among the largest providers of telecommunications services and products in the United States and has investments in more than 60 countries. We are a Fortune 10 company, employing approximately 302,000 people as of June 30, 2007, and had interest rate swaps with a notional value of \$3.25 billion at June 30, 2007. AT&T is an end-user of derivatives, as well as an issuer and end-user of financial statements. Because of the ramifications of the exposure draft on our existing and future financial decisions, we think it is appropriate for us to present our concerns in this comment letter.

The difficulty in applying FAS 133 is evident by the voluminous nature of the Standard itself. We believe that certain provisions of this exposure draft will provide useful information to users of financial information and represent an improvement in disclosure. The exposure draft does address and clarify the circumstances where the use of the shortcut method is appropriate, and we support those clarifications.

While we are supportive of the efforts of the FASB in this area, we have reservations about several of the proposals in the exposure draft. We feel strongly that the FASB's decision that paragraph 68 of FAS 133 should no longer be interpreted to permit the use of the shortcut method for late fair value hedges is an inconsistent interpretation of FAS 133 principles, FAS 133 tabular examples and previous DIG Issues.

We also believe that business decisions should be based on economic principles using the discipline of finance to provide the tools for analysis. Accounting principles should provide for consistency over time and across entities for the measurement, recording and reporting of financial results. Accounting principles should clarify and accurately reflect business results balanced by the cost of complying with those principles.



Our specific concerns are set forth below.

We do not agree with the proposal that use of the shortcut method be discontinued for existing hedges. Corporations have, in good faith, abided by the rules and made decisions to enter into hedges based on existing pronouncements; often a prerequisite for entering into the hedge was that it was eligible for the shortcut method. The purpose of the shortcut method was to significantly simplify the bookkeeping requirements for highly effective, extremely common transactions. This exposure draft is inconsistent with that purpose, and requiring hedges that previously qualified for the shortcut method to be tested using the long-haul method is unnecessary and unwarranted.

Secondly, the existing shortcut method does not require that the fair value of the hedged item must approximate or equal the par value at inception. It provides companies the opportunity to enter into hedges on a date different than the original date of borrowing, allowing for what is often referred to as "late hedges." This concept of late hedging is important to companies in dealing with the practical concerns of debt issuance and related treasury operations. To take away the flexibility provided in the existing standard could result in a significant increase in the effort to hedge and an increase in the workload required to satisfy testing requirements while not necessarily providing significant additional benefit to the reader.

The proposed rules may result in changes to economic decisions, or the timing of those decisions, for the sole purpose of complying with accounting requirements. In addition, we are concerned that a change in accounting for financial instruments would lead to earnings variability when there has been no corresponding change in risk characteristics undertaken. This could be the case if long-haul testing of existing swaps results in some measure of ineffectiveness or if a company chooses to de-designate existing hedges in order to avoid long-haul testing. We also do not agree with the assertion that changes in the fair value of the debt instrument prior to the hedge transaction distort the effectiveness of the hedge going forward if the terms of the hedge match the terms of the debt. In this way, we believe the exposure draft needlessly complicates economic and risk management decisions, and could add confusion, or possibly distortion, to the financial statements and disclosures.

Long-haul effectiveness testing will require additional resources (management and consulting), thereby increasing the cost of compliance. When hedging interest-rate or foreign-currency exposures a company will typically enter into a swap, and in doing so it is exposed to counter-party risk. To mitigate that risk the corporation will often enter into multiple swaps for each debt instrument. Therefore under the exposure draft, for each underlying debt instrument that is swapped, a company may have to perform multiple long-haul effectiveness tests. More time will be required to document and review long-haul testing conclusions. Sarbanes-Oxley procedures will require adequate internal controls. Finally, external auditors will need to review, test and document new audit procedures related to long-haul testing. All of these elements will result in significant incremental costs going forward.



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As we understand it, the FASB will be taking up the broader issue of fair value accounting in 2008. Rules that may be adopted in this exposure draft and Statement 133 in general may be materially altered in the near future. Given the complexity and potential cost of implementing the rules proposed in this exposure draft, we are concerned that this is not the appropriate time to address concerns with the shortcut method.

Finally, the proposed compliance date of the new rules is the first date of the first quarter following adoption. For the reasons stated above, we believe such an implementation period is too short. If the Board feels compelled to adopt the exposure draft as proposed, we urge them to consider an implementation period of at least 180 days.

We appreciate the opportunity to comment on projects undertaken by the FASB. If you would like to further discuss any of our comments, please do not hesitate to contact me at (210)351-3900.

Yours very truly,

A handwritten signature in black ink, appearing to read "JJS" with a long horizontal line extending to the right.

John J. Stephens
Senior Vice President and Controller