



August 15, 2008



LETTER OF COMMENT NO. 32

**Submitted via email (director@fasb.org)**

Financial Accounting Standards Board  
401 Merritt 7  
PO BOX 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 15900-100, Accounting for Hedging Activities an amendment of FASB Statement No. 133 Exposure Draft**

Dell Inc. ("Dell") appreciates the opportunity to respond to the Financial Accounting Standards Board's (or "FASB") Exposure Draft published June 6, 2008, entitled Accounting for Hedging Activities an amendment of FASB Statement No. 133 ("ED"). Dell supports the FASB's commitment and efforts to address the complexities of hedge accounting and to improve the usefulness of the hedge accounting results reported in financial statements. Because investors rely on *credible, transparent, and comparable financial information, high quality and consistently prepared financial statements* are important to the efficient functioning of the world's economy and stock markets. Included in Attachment I are our views related to the specific questions set forth in the Board's ED as well as a few additional concerns noted upon our review.

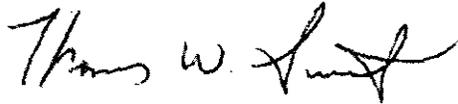
As we understand it, the specific objectives of the ED are to reduce the complexities, improve financial reporting, and increase consistency as it relates to how companies account for hedging activities. However, it is our observation (discussed in more detail in Attachment I) that the ED creates additional complexities to consider and leaves several unresolved questions regarding key issues related to hedge accounting. For instance, derivatives are generally designed to manage discrete risks (such as interest rates); not all risks. Therefore the requirement that the fair value of the derivative must be expected to reasonably offset all (with limited exceptions) of the changes in fair value (or, the overall changes in cash flows) of a recognized debt instrument for the relationship to qualify for hedge accounting would disqualify some of the most simple, effective hedging strategies currently used in practice. Implementing this guidance would further disaggregate the economics of the hedging strategy from the accounting for the hedged items or transactions.

Dell believes that a project to work toward convergence (rather than simply adopting the IAS 39 standard) of the derivatives and hedging provisions of IAS 39 and U.S. GAAP would serve the financial community well. We believe that working toward one standard, as opposed to adapting our accounting systems, programs, methodologies, and knowledge base to multiple changing iterations, would be more cost justifiable. We agree with the alternative view, "that the priorities of the U.S. financial reporting system have changed, and the benefits of interim changes to Statement 133 that leave unchanged the vast majority of its complex provisions are heavily outweighed by the costs." In addition, with convergence of accounting standards being a primary focus of the FASB and IFRS, we agree with the alternate views presented in the amendment such that "it is unreasonable to ask the participants in the U.S. markets to understand, implement, and interpret this proposed Statement, which is a different form of U.S. GAAP, then change to IAS 39 in a few years, and then possibly change again in a few years, depending on the outcome of the IASB's discussion document on accounting for all financial instruments at fair value."

Despite the expected increased demand on our resources to define and develop a practical approach as to what is considered reasonable, we feel that the reasonableness concept that permeates the exposure draft is worth the benefit of no longer having to maintain compliance with the "highly effective" threshold in effect today. While we agree with the Board's shift towards a principles based approach to hedge accounting, the ED may result in an inconsistent application of the standard, thus prohibiting comparability of financial information. Although we believe the potential barriers to comparability will be overcome through the enhanced disclosures required by Statement 161, the continued increase in disclosures, while supported by Dell, will lead to additional complexity for financial statement users. Therefore, we believe more discussion behind the basis for what is considered reasonable would enhance consistency of application and therefore comparability of financial information.

Thank you for the opportunity to comment on this important matter. If you have any questions regarding our comments, please contact me at (512) 728-8092.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas W. Sweet". The signature is fluid and cursive, with a large initial 'T' and 'S'.

Thomas W. Sweet  
Vice President, Chief Accounting Officer  
Dell Inc.

## ATTACHMENT I

### **Issues 1-2: Hedged Risk**

**Issue 1:** For the reasons stated in paragraph A16 of this proposed Statement, the Board decided to eliminate (with two exceptions) the ability of an entity to designate individual risks as the hedged risk in a fair value or cash flow hedge. As a result of that change, the financial statements would reflect information about the risks in the hedged item or transaction that an entity both chooses to manage and not to manage as part of a particular hedging relationship.

**Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of the risks inherent in the hedged item or transaction?**

#### ***Dell's Response:***

We believe that the proposal to eliminate the ability of an entity to designate individual risks will impair the usefulness of financial reporting. The Board should continue to permit an entity to designate individual risks as a hedged risk as that is consistent with many companies risk management hedging strategies. For example, interest rate swap agreements are a common instrument used by preparers to convert their own issued debt from fixed to floating or vice versa. Late hedging of this risk is commonly used in practice to convert at a time when rates are more attractive. Not allowing bifurcation by risk would result in accounting presentations that may be disconnected from the economics of the transaction as the Statement would now require the inclusion of the entity's credit risk in assessing hedge effectiveness in addition to interest rate risk. The economics of the transaction is to hedge the interest rate risk whether done at or post issuance. Derivatives are generally designed to manage discrete risks (such as interest rates); not all risks. Therefore the requirement that the fair value of the derivative must be expected to reasonably offset all (with limited exceptions) of the changes in fair value (or, the overall changes in cash flows) of a recognized debt instrument for the relationship to qualify for hedge accounting would disqualify some of the most simple, effective hedging strategies currently used in practice. Implementing this guidance would further disaggregate the economics of the hedging strategy from the accounting for the hedged items or transactions. Finally, based on the provisions of Statement 161, the additional disclosures necessary to provide comparability of financial information, in regards to the risks being hedged, will increase the complexity for users of the financial statements, which does not appear to be inline with the intent of the Board.

**Issue 2:** For the reasons stated in paragraphs A18–A20, the Board decided to continue to permit an entity the ability to designate the following individual risks as the hedged risk in a fair value or cash flow hedge: (a) interest rate risk related to its own issued debt (that is, its liability for funds borrowed), if hedged at inception, and (b) foreign currency exchange risk. For those two exceptions, the financial statements would not reflect information about the risks that an entity chooses not to manage as part of a particular hedging relationship.

**Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?**

#### ***Dell's Response:***

For reasons stated in our response to Issue 1, we believe the designation of individual risks should continue to be permitted. However, in regards to the exceptions noted, we believe the Board should continue to permit the designation of these individual risks as hedged risks as these risks are typically relatively easy to isolate, measure and hedge using simple derivative contracts available in the markets. This will allow a preparer to continue to manage these exposures and maximize shareholder value.

**Issue 3-6: Hedged Risk**

**Issue 3:** This proposed Statement would eliminate the shortcut method and critical terms matching. Therefore, an entity would no longer have the ability upon compliance with strict criteria to assume a hedging relationship is highly effective and recognize no ineffectiveness in earnings during the term of the hedge. As a result, when accounting for the hedging relationship, an entity would be required, in all cases, to independently determine the changes in fair value of the hedged item for fair value hedges and the present value of the cumulative change in expected future cash flows on the hedged transaction.

**Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships?**

**Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the shortcut method and critical terms matching, which would eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?**

***Dell's Response:***

The elimination of the short-cut method and critical terms matching does not appear to be in line with the objective of simplification highlighted as a key reason for the proposed Statement. These methods are utilized in practice today to hedge risks that are typically easy to isolate and measure with simple derivative instruments. Historically, the short-cut and critical terms match methods have been generally understood and applied in practice. However, regulators narrowly construed the short-cut and critical terms match criteria, which has led to practice issues and in some cases financial statement restatements. Reasonable criteria that can be applied with appropriate judgment are generally workable in practice.

Eliminating the short-cut method and critical terms matching will create additional administrative burden for simple structures that is unnecessary for routine hedging relationships. While hedging strategies that currently utilize these methodologies could still qualify for hedge accounting under the "reasonably effective" threshold, preparers would now be burdened with measuring "ineffectiveness" each reporting period and complex models will have to be developed and maintained by staff and resources that not all preparers have today. And, hedge accounting may not appropriately reflect the intended economics of the hedging transaction.

**Issue 4:** This proposed Statement would modify the effectiveness threshold necessary for applying hedge accounting from *highly effective* to *reasonably effective* at offsetting changes in fair value or variability in cash flows.

**Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?**

**For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under this proposed Statement(except for an entity's own issued debt at inception), do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk?**

***Dell's Response:***

This modification appears to alleviate the burden of proving that the derivative is highly effective, on the other hand, various interpretations by preparers as to how the

"reasonably effective" guidance should be applied could create more financial reporting inconsistencies.

However, we feel that the combination of increased transparency, (i.e. the additional financial statement disclosures), required by Statement 161 along with lowering the effectiveness threshold will increase a company's ability to utilize additional hedging strategies without compromising financial statement comparability. The burden on companies to define "reasonably effective" and develop how it will be practically applied should be easier to administer than maintaining compliance with the "highly effective" threshold in effect today.

In regards to the question asked on interest rate risk, there could be arrangements that would no longer qualify for hedge accounting treatment and the Company's strategy could change to incorporate any combination of items (a) – (d).

**Issue 5:** This proposed Statement always would require an effectiveness evaluation at inception of the hedging relationship. After inception of the hedging relationship, an effectiveness evaluation would be required if circumstances suggest that the hedging relationship may no longer be reasonably effective.

**Do you foresee any significant operational concerns in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness each reporting period?**

***Dell's Response:***

We do not see any significant operational concerns as we expect to continue our current process of assessing and measuring hedge effectiveness each quarter.

**Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? If so, why?**

***Dell's Response:***

Based on Dell's hedging strategies, if a hedging relationship meets the criteria to be considered effective at inception then we would not expect a change in the number of times hedging relationships would be discontinued compared to current practice.

**Issue 6:** The Board considered but decided against eliminating any assessment of effectiveness after the inception of the hedging relationship. The Board believes that eliminating such an assessment of effectiveness could result in the continuation of hedge accounting even when situations suggest that the hedge relationship may no longer be reasonably effective. Some observe that an implication of the decision to not eliminate any assessment after the inception of the hedging relationship could be that hedge accounting results would be reflected in some reporting periods and not in other reporting periods throughout the life of the relationship. Also, in a hedge accounting model that generally does not permit hedging of individual risks, changes in the relationship between the individual risks being managed and those not being managed could increase the likelihood that the hedging relationship would no longer be reasonably effective. That would result in hedge accounting no longer being permitted for a portion of an expected hedge term. That "in and out" of hedge accounting would make it more difficult for users to interpret financial statements.

**Do you agree with the Board's decision to continue to require that hedge accounting be discontinued if a hedge becomes ineffective? Alternatively, should an effectiveness evaluation not be required under any circumstances after inception of a hedging**

**relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term?**

***Dell's Response:***

We do agree that hedge accounting should be discontinued if a hedge is no longer considered to be reasonably effective, as the purpose of the hedge no longer exists. Because hedging relationships are based on expected outcomes which are subject to various uncertainties, the effectiveness of the hedging relationships should be evaluated on an ongoing basis to ensure that the purpose of the hedging relationship still exists.

However, requiring that the fair value of the derivative must be "reasonably effective" at offsetting "all" of the changes in fair value (or, the overall changes in cash flows) of a recognized debt instrument for the relationship to qualify for hedge accounting would disqualify some of the most simple, effective hedging strategies currently used in practice. Therefore, what appears to be intended to alleviate the current burdens of hedge accounting may lead to ineffective hedges that continue to receive hedge accounting or effective hedges that get terminated, thus creating more financial reporting inconsistencies. Therefore, the requirement to offset "all" of the changes in fair value does not appear appropriate, in light of the FASB's efforts to simplify the accounting for hedging activities.

***Issue 7: Presentation of Hedging Gains and Losses***

In the statement of operations, Statement 133 does not prescribe the presentation of gains and losses associated with hedging instruments, including the effective portion, the ineffective portion, and any amounts excluded from the evaluation of effectiveness, such as forward points. Some have suggested that such a prescription would improve financial reporting by creating consistency in the presentation of these amounts across all entities. Others observe that FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, requires disclosure about that information, and they question whether a prescriptive approach is appropriate given the diverse hedge accounting strategies employed by entities.

**Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts? For example, the Statement could require that the effective portion of derivatives hedging the interest rate risk in issued debt be classified within interest expense and that the ineffective portion and any amounts excluded from the evaluation of effectiveness be presented within other income or loss.**

***Dell's Response:***

We do not believe that Statement 133 should prescribe the presentation of these amounts as the requirements of Statement 161 already require ample disclosures that will provide the necessary transparency needed for present and potential investors and creditors and other users of the financial statements in making rational investment, credit, and similar decisions.

***Issue 8-10 Effective Date and Transition***

**Issue 8:** The Board's goal is to issue a final Statement by December 31, 2008. The proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years.

**Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?**

***Dell's Response:***

We will have to work extensively with our peers and auditors in order to ensure we implement the guidance in this standard in a consistent manner useful to the users of our financial statements. In addition, it is important to consider that cash flow hedging strategies are often entered into more than a year in advance of the forecasted transaction. Therefore, it is difficult to assess whether the effective dates provides enough time for us to adopt the statement.

**Issue 9:** The Board did not prescribe any specific transition disclosures upon the adoption of this Statement.

**Do you believe that there are specific disclosures that should be required during transition? If so, what? Please be specific as to how any suggested disclosures would be used.**

***Dell's Response:***

If under the new guidelines entities are required to adjust the balance in other comprehensive income at the date of adoption then this change should be disclosed in order to bridge the prior period closing balance.

**Issue 10:** The Board decided to permit an entity a one-time fair value option election under FASB Statements No. 156, *Accounting for Servicing of Financial Assets*, and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, for (a) servicing assets and servicing liabilities designated as a hedged item on the date immediately preceding initial application and (b) eligible financial instruments designated as a hedged item on the date immediately preceding initial application of this proposed Statement.

**Do you agree with the Board's decision to allow a one-time fair value option at the initial adoption of this proposed Statement? Do you agree with the Board's decision to limit the option to assets and liabilities that are currently designated as hedged items under Statement 133?**

***Dell's Response:***

We view the proposed option as favorable as it allows preparers flexibility in adoption.

**Benefit-Cost Considerations**

**Issue 11:** The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The benefit-cost considerations considered by the Board are provided in paragraphs A43–A50 in Appendix B of this proposed Statement.

**Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement? If not, what additional benefits or costs should the Board consider?**

***Dell's Response:***

The new rules will require significant compliance efforts and implementation will require creation of new valuation models, appropriate staffing levels, additional control procedures, and revision to systems.

Again the issue of "reasonably effective" comes into play. Without having determined a practical approach to defining, implementing, and assessing what is considered to be

"reasonably effective" it is difficult to assess whether or not additional costs would need to be incurred. Taken at face value one could assume a simpler process and therefore a cost savings, however the inability to designate certain individual risks (beyond the two exceptions) and the potential for rigorous calculations to prove effectiveness do not appear to support the benefit intended by the Board.

## **OTHER CONCERNS**

### **Reasonable Time Period**

Paragraph 12:

For cash flow hedge relationships in which the designated forecasted transaction is the variability in cash flows related to a group of transactions within a specific time period, an entity may assess effectiveness using a method that would include a derivative that settles within a reasonable period of time of the cash flows related to the hedged transactions. That time period is reasonable if the difference is minimal between the forward rate on that derivative and the forward rate on a derivative or derivatives that would exactly offset the changes in cash flows of the forecasted transactions.

#### ***Dell's Concern:***

This proposal to base 'reasonableness' on the difference in forward rates represents an attempt by the FASB to avoid specifying an exact time period deemed to be reasonable. However, given the relationship between forward rates and yield curves, a small difference in forward rates does not necessarily imply a small difference in timing. This appears to give greater leniency than the recent SEC position concerning the relationship between the timing of the designated forecasted transaction and the settlement of the hedging instrument. This greater leniency appears to alleviate the burden on preparers however; preparers that are subject to SEC requirements would need more guidance as how this relates to the SEC's position.

We request that the FASB make clear that defining a "reasonable time period" will require judgment and that the intention of the ED is not to create "bright-lines" thus allowing the SEC to revise their previous position based on the Board's intention.

### **De-Designation Prohibition**

Summary of Paragraph 14-15:

The Amendment would prohibit the discontinuation of hedge accounting by simply removing the designation of a hedging relationship. It would allow de-designation only if a criterion in paragraphs 20 and 21 of Statement 133 (for fair value hedges) or in paragraphs 30 and 31 of Statement 133 (for cash flow hedge) ceases to apply, or if the hedge instrument is sold, terminated or exercised or it expires.

#### ***Dell's Concern:***

Suppose a preparer chooses to use a single derivative to hedge a forecasted foreign-currency-denominated sales or purchases on credit (i.e. to hedge only to the date revenue is recognized in the income statement), in accordance with Paragraph 36A of Statement 133. Per this guidance in Statement 133, when the revenue is recognized, the hedging relationship would no longer to be expected to be hedging the documented forecasted transaction.

It is unclear as to why hedging accounting would have to be continued when the designated forecasted transaction has been recorded.

If the preparer is prohibited from de-designating its cash flow hedge and subsequently use the instrument as a fair value hedge, then the preparer would have to substantially

change its hedging program which would create additional operational and transactional costs.

### **Hedging Intercompany Cash Flows**

*Paragraph 40, as amended:*

However, the requirement in paragraph 29(c) that the forecasted transaction presents an exposure to variations in cash flows that could affect reported earnings must still be met at the level being reported on. (For example, in the financial statements of a consolidated entity, there would need to be a potential earnings effect that survives consolidation.)

#### ***Dell's Concern:***

The only example provided in the ED deals with royalty payments from a subsidiary to a parent. However, suppose a preparer (the "parent"), whose reporting currency is USD, hedges intercompany sales of inventory to their subsidiary who then sell the inventory to a customer (i.e. a true third party) in a foreign currency (the same currency which was paid by the subsidiary to the parent. The sale between the subsidiary and the customer is made in a foreign currency and represents true enterprise currency risk to the parent who reports in USD. An amount of this risk is directly linked to a 3<sup>rd</sup>-party transaction and is transferred via an intercompany bill that will generate remeasurement as defined by SFAS 52.

Per the amendment, it is unclear where the line is drawn differentiating between (1) 3<sup>rd</sup>-party risk that generates exposure that results in an earnings effect that survives consolidation and (2) risk that does not survive consolidation. Dell requests an additional example, for instance where a subsidiary is purchasing inventory from a parent in a foreign currency, be provided in the amendment where hedge accounting is permitted with a more detailed supporting basis for conclusion to create a more consistent application of the guidance in the proposed ED regarding intercompany transactions.