

FASB Invitation to Comment  
Accounting for Hedging Activities  
The Ohio Society of CPAs Accounting & Auditing Committee



LETTER OF COMMENT NO. 7

August 7, 2008

Financial Accounting Standards Board  
Attn: Technical Director— File Reference No. 1590-100  
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To: [director@fasb.org](mailto:director@fasb.org), File Reference No. 1590-100

Dear Technical Director, Board members and Staff,

The Accounting and Auditing Committee of The Ohio Society of CPAs is pleased to respond to the FASB's invitation to comment on the proposed standard "*Accounting for Hedging Activities an amendment of FASB Statement No. 133*".

Our feedback includes the following comments and observations:

1. The exposure draft does simplify certain aspects of FAS 133 hedge accounting, but it also adds new complexities. Banks and Financial Service Companies that hedge benchmark interest rates of financial assets would be required to hedge other variability such as credit risk. There might not be a market for derivatives that would accommodate this type of hedge. It's possible that such a market might develop due to this accounting standard, but initially these types of financial assets would create additional volatility in earnings.
2. In addition to simplifying US GAAP hedge accounting, the amended standard should consider the need to simplify US GAAP to IFRS projects. The exposure draft creates additional differences from IFRS such as the "reasonably effective" threshold. This new threshold might create inconsistency in what level of effectiveness is deemed enough to qualify and lead to additional complexities in comparing US GAAP to IFRS.

We understand there is another project on-going at the FASB to address convergence. In paragraph A51 of the draft standard, reference is made to the open IASB discussion paper on reducing complexity in reporting financial instruments. Two general approaches are proposed by the IASB as (1) eliminating and possibly replacing existing hedge accounting, or (2) maintaining and simplifying the existing hedge accounting requirements. The FASB indicates this

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proposed new standard is consistent with the second approach proposed by the IASB. This new standard appears to telegraph the FASB's preference either in advance of or in anticipation of eventual IASB consideration. Potentially, it may likely create additional differences requiring further modification in convergence efforts. We recommend the FASB not pursue short-term projects that will create additional differences that must be worked out in the long-run with the IASB, and instead pursue joint development of accounting standards where critical areas are involved.

3. The exposure draft requires inter-company forecasted cash flow transactions with foreign subsidiaries to have an impact on earnings to qualify for hedging. This change does not appear to simplify hedge accounting.
4. With the proposed elimination of the short cut method, we believe the proposed standard should also include an example of applying this standard with regards to a plain vanilla swap. Many current "shortcut method" users have this type of hedge, and only this type of hedge, and an example of the application of this new standard would greatly clarify questions and concerns about the impact of eliminating the "short cut" method.
5. We do not concur with the proposed elimination of late hedges as outlined in this draft accounting standard. Institutions hedge their own issued debt not only on the date of issuance but also at future dates (late hedges) as a part of ongoing asset liability risk management. Institutions hedging their own debt on the day of issuance would account differently than if hedging the exact same or similar debt within a short period after issuance. This creates significant inconsistencies in accounting both within an institution and across separate institutions. This is inconsistent with the objective of addressing differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and accounting for hedge items and transactions. It also creates significant inconsistencies for the user in evaluating and comparing financial statements.
6. There are a number of transition steps and options outlined in paragraphs 32 to 35 of the proposed standard. Paragraph 35 provides an option to reclassify held to maturity securities (defined as such under FASB Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). Paragraphs No. 8 to 11 in Standard No. 115 outlines criteria for classification and changes in classification for investment securities based on various objective criteria. This implementation step option (as a "one-time event:" to override criteria outlined in Standard No. 115) for Hedge Accounting appears unique.

If these two areas are conceptually linked in the FASB's view, there should be a single accounting standard dealing with both accounting for investments in debt and equity securities and for related hedge accounting issues. If the intent is to make this new proposed accounting standard more acceptable by "relaxing" the criteria used in Standard No. 115, we suggest such an explicit "trade" in the accounting standard setting process may not be the best approach in the long term for both the FASB and financial statement users. This transition approach appears to open up opportunity to by-pass traditional results reporting (the statement of results) with a "go directly to retained earnings" mentality.

7. While the changes in this standard conceptually support the premise that it simplifies hedge accounting requirements and related application efforts, we believe it is critical to confirm this view through feedback and open comment as the FASB is doing. In addition, we believe *field-testing these changes may be prudent to confirm that this proposed standard effectively would achieve this purpose*. Otherwise, we are likely to see further revisions and "interpretations" (from the FASB, the SEC, etc.) that will follow this proposed accounting standard in the long term.

We appreciate the opportunity to comment on this proposed standard, and welcome any additional opportunity to further discuss or otherwise support the efforts of the FASB in this area.

Best Regards,

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