



August 13, 2008



LETTER OF COMMENT NO. 14

Mr. Russell G. Golden, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: Proposed SFAS – Accounting for Hedging Activities an Amendment of FAS 133  
(File reference 1590-100)

Dear Mr. Golden:

The Western Union Company (“Western Union” or “WU”) is a leader in global money transfer services, with 2007 revenues of \$5 billion and net income of \$0.9 billion. Western Union offers its services, including bill payment, through a global network of over 355,000 agent locations that facilitate the transfer of funds in multiple currencies. We appreciate the opportunity to comment on the Proposed SFAS, Accounting for Hedging Activities, an amendment of FAS 133 (“proposed statement”).

Western Union agrees with the FASB that both financial statement preparers and users would benefit from simplifying the application of FAS 133. While certain provisions in the proposed statement represent such improvement, WU is concerned with other provisions, the most significant being the proposed preclusion of bifurcation by risk. WU does not believe that precluding benchmark interest rate risk as the designated risk in a hedge of interest bearing assets, liabilities, or related cash flows represents an improvement in financial reporting. As discussed in more detail below, requiring a company to include changes in credit spread in its evaluation of whether an interest rate hedge is effective is not consistent with the risk management objective of executing the hedge, results in income volatility for a risk that would not otherwise be recognized (i.e., such changes are not recognized for unhedged debt), and results in significant additional complexity in assessing whether such hedging relationships are expected to be effective. WU believes that each change in the proposed statement should meet one of three criteria: (a) simplification in understanding and application of hedge accounting, (b) resolution of historical practice issues in hedge accounting, or (c) convergence with the principles in IAS 39. The proposed preclusion of bifurcation by risk would not appear to accomplish any of these objectives.

The remaining discussion will review several of the specific provisions in the proposed statement.

#### Effectiveness Assessment & Measurement

WU supports the proposed change to require that hedges be expected to be “reasonably effective” in offsetting the fair value or variability in cash flows for the designated risk, as

opposed to the existing rule of “highly effective.” WU believes that such a change would, in many cases, enable effectiveness assessments to be performed qualitatively, which would simplify the application of hedge accounting by avoiding the use of complex statistical analysis for relationships that would generally seem effective. We do not believe that there would be significant challenges in establishing an ongoing evaluation process that would identify circumstances indicating the relationship may no longer be reasonably effective. Indeed, this type of process already exists for identifying triggering events for impairments of investments or goodwill.

WU strongly supports the proposed clarifications in cash flow hedging that permit identifying, as the hypothetical derivative, a derivative that settles within a reasonable period of time of the cash flows related to the hedged transaction. The FASB is well aware of the historical concerns regarding timing differences on cash flow hedges, and this guidance provides clarity to how such differences should be evaluated when identifying the appropriate hypothetical derivative that would be used to both assess and measure ineffectiveness. WU believes the approach of determining “a reasonable period of time” by evaluating forward point differences is appropriate.

#### Bifurcation by Risk

WU strongly opposes the proposed change to preclude the designation of the benchmark interest rate as a designated risk. WU actively manages its fixed versus floating interest rate exposures, primarily through the use of interest rate swaps designated in (a) fair value hedges of the related fixed-rate debt and (b) hedges of forecasted debt issuances. Attempting to hedge the fair value changes in our debt caused by changes in our credit spread is not a risk that we believe is appropriate for us to hedge on behalf of our shareholders. Serious concerns over insider information and self-dealing effectively prohibit such hedges. As proposed, fair value hedges and forecasted debt issuance hedges would require recognition of changes in credit spread in income, assuming sufficient correlation exists between interest rates and credit spreads to qualify for hedge accounting, which in some cases may not. WU believes that recognizing changes in credit spread in income is not appropriate when the risk management objective is to manage only interest rate exposure. Under the current accounting model for unhedged fixed-rate debt, neither interest rate movement nor credit spread movement is reflected in earnings; rather, the fair value of debt is disclosed pursuant to FAS 107. The hedge model should not introduce income volatility for risks unrelated to the risk management objective, particularly when unhedged debt is not marked-to-market for such changes.

The limitation on hedging the benchmark interest rate only for “at inception hedges” of a company’s own issued debt puts undue constraints on corporations that are trying to manage interest rate risk on an ongoing basis on behalf of their investors. The result will be that some such hedges may not qualify for hedge accounting due to changes in credit spread, and for hedges that do qualify, the ineffectiveness will produce significant earnings volatility due to changing credit spreads, which a company may have no ability or desire to hedge.

WU notes that this change will create divergence with IAS 39. While there are other portions of this proposal that create divergence, nearly all of those provisions simplify the understanding or application of hedge accounting. The proposal to eliminate bifurcation

by risk does not. In fact, WU believes that this adds significant complexity which undermines the goal of simplifying the initial assessment of effectiveness. WU believes that very few, if any, fair value hedges of debt or cash flow hedges of forecasted debt issuances would be able to be deemed reasonably effective without significant quantitative analysis. The basis difference created by comparing changes in value of debt (including credit) with changes in the value of swap (which would not include significant credit risk) would force a statistical analysis. WU acknowledges that the IASB is reviewing the accounting for financial instruments and that one of the proposals could result in the elimination of bifurcation by risk. However, such a significant change should be evaluated jointly by both standard setters in a common project, not as part of this proposal.

The practical implication of eliminating bifurcation by risk is that many companies will simply choose not to hedge due to potential income volatility. WU believes that this is the primary reason why many companies did not elect the fair value option under FAS 159; instead opting to continue their hedge accounting programs for debt, notwithstanding their complexity. This concern is increased when considering that the outcome of this decision for hedging debt will result in losses from improvements in credit spread and gains as credit spread widens, notwithstanding that cash flows would be unchanged. Both the IASB and the FASB are aware that many preparers are concerned with this outcome and the counterintuitive impacts on income. We do not believe that this project is the appropriate forum to discuss this issue; rather, a formal project on financial instrument accounting would be appropriate for discussing this issue. A full deliberation of financial instrument accounting would allow a more thorough discussion of this issue before forcing companies to either accept this outcome or not engage in interest rate hedging of debt.

#### Other Concerns/Comments

The following lists several other areas of the proposed statement and WU's comments:

1. De-designation – WU opposes eliminating the ability to de-designate a derivative from a hedge relationship. We do not believe this to be an area of significant complexity in practice. It seems contradictory that a company can terminate a hedging relationship by entering into an offsetting position, provided concurrent documentation of such effective termination exists, but not de-designate a relationship. Ironically, entering into an offsetting derivative and documenting this “effective termination” is, in substance, a de-designation. However, should the FASB maintain the currently proposed preclusion, WU strongly supports the proposed modifications to par. 167 through 172 of FAS 133. These modifications clarify that termination of a hedging relationship prior to the settlement of the derivative is appropriate so long as documented at time of hedge designation. Termination of the hedge relationship prior to the settlement of the derivative is quite common with foreign-currency hedging of forecasted revenues or expenses. In those cases, the derivative serves as an effective economic hedge (typically undesignated from an accounting perspective) of the foreign-currency receivable or payable that results from the recognition of the forecasted revenue or expense.

2. **Shortcut Method**—WU opposes the elimination of the “shortcut method” and “critical terms matching” of accounting for interest rate swaps. Both of these methodologies were designed to simplify hedge accounting. One of the stated goals of the proposed statement is to simplify hedge accounting, but removing two heavily relied upon simplification provisions would appear inconsistent with that goal. While there have been historical practice issues with the application of this method for some companies, WU believes such practice issues can be worked through with improved preparer and auditor understanding. If the FASB wanted to enhance this simplified approach, it could make it clear that shortcut requires matching of critical terms and not insignificant terms. In this way, many of the restatements might have been avoided. The shortcut method aids significantly in the ongoing administration of hedge relationships and avoids the complexity of long haul measurements of ineffectiveness for hedges that likely have immaterial ineffectiveness. Such measurements have considerable cost associated with them and add little discernable benefit. While the use of “reasonably effective” should assist in simplifying the assessment of effectiveness, it does not provide the simplifying benefit in measuring ineffectiveness that is allowed under the shortcut method. WU would support continued use of this exemption.
3. **Presentation**—WU supports the FASB’s decision to not prescribe specific classification for gains and losses on derivatives. The level of disclosures required by FAS 161 will provide readers sufficient clarity as to classification without attempting a “one size fits all” classification requirement.
4. **Transition**—WU strongly supports the transition provisions that permit continued designation of the benchmark interest rate for hedges executed prior to the effective date of the proposed statement, which is relevant only if the FASB ultimately decides to eliminate bifurcation by risk. Hedges executed should not be required to incorporate credit spread changes if executed based on the existing guidance. Also, WU would suggest clarifying the implementation requirements for shortcut method interest rate hedges upon adoption. The proposed statement indicates that benchmark interest rate hedges that exist at transition need not have begun at debt inception and thus do not require de-designation and re-designation. Unless the FASB decides that shortcut method hedges executed prior to the effective date can continue to assume zero ineffectiveness after adoption (which WU would support for simplicity), the transition provisions should make clear that modification of documentation to acknowledge the elimination of the shortcut method is not a “re-designation” under the transition provisions.
5. **Timing**—WU is a calendar year-end company and does not believe the proposed effective date for us of January 1, 2010 will create significant implementation burden. However, an earlier effective date (e.g., January 1, 2009) would pose significant challenges.
6. **Impact on investors and users of financial statements** - Investors will not be served by the additional cost of statistical analysis to assess effectiveness (if bifurcation by risk is eliminated) or long-haul methods to measure ineffectiveness



(if shortcut accounting is eliminated). More importantly, the elimination of bifurcation by risk will result in both (1) a reduction in risk management practices to hedge interest rate risk, and (2) the counterintuitive impacts of credit spread changes being reflected in results if hedge accounting is employed. WU believes that neither of these changes benefit investors.

Western Union appreciates the FASB's efforts toward the goal of simplifying hedge accounting. While the proposal incorporates certain improvements that we support, the proposed elimination of bifurcation by risk does not result in simplification and, in fact, undermines other simplification provisions (notably the "reasonably effective" criteria). *We request that the FASB carefully consider whether this portion of the proposal truly achieves the goals of this project or, rather, creates a new complexity for preparers and users to understand.*

Thank you in advance for your consideration of our comments. Please feel free to contact me at 720.332.5380 ([amintore.schenkel@westernunion.com](mailto:amintore.schenkel@westernunion.com)) or Wayne King, Vice President – Accounting Standards & Policies, at 720.332.4867 ([wayne.king@westernunion.com](mailto:wayne.king@westernunion.com)) with any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "Amintore T.X. Schenkel".

Amintore T.X. Schenkel  
Senior Vice President, Chief Accounting Officer and Controller  
The Western Union Company