



LETTER OF COMMENT NO. 72

August 15, 2008

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via Email to director@fasb.org

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Re: File Reference 1590-100

Grant Thornton LLP appreciates the opportunity to comment on the Financial Accounting Standards Board (the Board) Exposure Draft of the Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133. Although we support the Board's effort to improve accounting for hedging activities in principle, we believe that certain provisions should be modified.

Our primary concerns relate to three areas:

- 1. We believe that certain provisions in the proposed statement would result in divergence from IAS 39, Financial Instruments, Recognition and Measurement without significant, if any, benefit to financial statement users or preparers. Although this Exposure Draft does not currently form part of the Memorandum of Understanding between the Board and the International Accounting Standards Board (IASB), we believe that improvements in accounting for hedging activities would be best undertaken as a joint project with the IASB.
- We believe that eliminating an entity's ability to designate certain specific risks as the hedged
 risks would not result in improved financial reporting sufficient to justify the costs associated
 with the change to current accounting standards or justify the resulting divergence from IAS
 39.
- 3. We support the Board's efforts to simplify the application of hedge accounting by modifying the effectiveness threshold necessary for applying hedge accounting from highly effective to reasonably effective. However, we believe that additional guidance or examples are necessary to assure consistent application of the underlying principle. We also believe that periodic reassessment of whether the hedging relationship remains reasonably effective should be required.

Our other comments are organized to correspond with the issues within the "Notice for Recipients of This Exposure Draft."



Hedged Risk

Issue 1

We believe that the proposed Statement would impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks as the hedged risk in a fair value or cash flow hedge. Entities often enter into derivative transactions with the intent of only hedging individual risks and thus manage their risks in this manner. Eliminating the ability to designate individual risks as the hedged risk also affects the interaction of other accounting standards that address measurement for some of the risks that are not hedged. Eliminating an entity's ability to designate individual risks as the hedged risk causes further divergence from IAS 39.

The proposed standard prohibits an entity from designating only interest rate risk as the hedged item after the issuance of debt. While entities generally hedge interest rate risk concurrent with the issuance of the debt, there are many instances in which entities will hedge interest rate risk some time after issuance. In these situations, the proposed standard creates an inconsistency in accounting for economically similar transactions. If an entity does hedge interest rate risk on its own issued debt after issuance of that debt, there are practical difficulties in measuring the entity's own credit risk.

We believe that eliminating an entity's ability to hedge individual risks would result in greater complexity for preparers while providing little, if any, benefit to financial statement users.

Issue 2

We believe that an entity should continue to be permitted to designate interest rate risk related to its own issued debt and foreign currency exchange risk as hedged risks in a fair value hedge or cash flow hedge.

Hedge Effectiveness

Issue 3

We support the elimination of the shortcut method and critical terms matching. We see this change as a possible operational concern for smaller businesses, but believe that the change eliminates a source of complexity that has resulted in numerous restatements from improper application of hedge accounting. The benefit of requiring all preparers to measure the amount of ineffectiveness for all hedges outweighs these operational concerns. Measuring ineffectiveness is a key concept in hedge accounting and the elimination of the shortcut method and critical terms matching will ensure that preparers have a greater understanding of this concept. Eliminating the shortcut method and critical terms matching will also result in greater convergence with IAS 39.

Issue 4

We believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate, in principle, because it will improve the usefulness of financial statements for entities that enter into derivative transactions to hedge risks. Modifying the effectiveness threshold should result in more entities that enter into derivatives to hedge risks electing to apply hedge accounting,



which will facilitate comparisons. The fact that hedge ineffectiveness is recognized in earnings mitigates concerns associated with moving from a highly effective threshold to a reasonably effective threshold. In practice, a definition of reasonably effective does not exist, so further guidance or examples are warranted to enable preparers and users to determine what is "reasonably effective." The Basis for Conclusions indicates that a definition was not supplied because the Board believes that it is necessary to apply judgment when determining whether a hedging relationship is reasonably effective. We believe that more guidance could be provided without providing rigid rules that would supplant judgment.

Issue 5

We believe that a reassessment of hedge effectiveness should be required each period and do not support the proposed change to only require reassessment in certain circumstances. If the ability to use hedge accounting is based on a reasonably effective threshold and such assessment is primarily qualitative in nature, we do not believe that periodic reassessment would be an onerous requirement. As described in our response to Issue 4 above, the concept of "reasonably effective" is not well defined. A hedging relationship could fail the reasonably effective criteria for many reasons after the inception of the hedge and we therefore believe that entities should be required in all circumstances to reassess whether the hedging relationship is reasonably effective. We do not foresee any operational challenges or excessive costs in requiring an assessment of reasonable effectiveness each period.

Issue 6

We agree with the Board's decision to continue to require the discontinuance of hedge accounting once a hedging relationship is no longer reasonably effective. We do not believe that it would be appropriate to continue the application of hedge accounting if it was determined that the hedging relationship was no longer expected to be reasonably effective over the expected hedge term.

Presentation of Hedging Gains and Losses

Issue 7

We do not believe that Statement 133 should be amended to prescribe the presentation of gains or 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. Statement 161 requires sufficient disclosure of this information to permit comparison of the effect of hedging on an entity's results and financial position across entities. We believe that the Board should address these presentation issues as part of the Financial Statement Presentation Project.

Effective Date and Transition

Issue 8

We believe that if the Board issues a final statement by December 31, 2008, an appropriate effective date would be for financial statements issued for fiscal years beginning after November 15, 2009 and for interim periods in those fiscal years. The proposed changes to Statement 133 are significant, and



entities will need time to adjust risk management strategies, processes and internal controls to comply with the new guidance.

Issue 9

We believe that the Board should require disclosure of those hedging relationships that no longer qualify for hedge accounting and those that qualify for hedge accounting under the Proposed Statement but not under previous accounting standards. We also believe the Statement should require entities to disclose any significant effects on comparability between periods as a result of adopting the new Standard.

Issue 10

We support the Board's proposal to allow a one-time fair value election under Statement 156 or Statement 159 at the initial adoption of the proposed Statement. We agree that the option should be limited to assets and liabilities that are currently designated as hedged items under Statement 133. We suggest that the Standard allow an entity to revoke a previous fair value election if the entity designates the item as the hedged item in a fair value hedge or the item's variable cash flows as the hedged transaction in a cash flow hedge under the new Standard.

Benefit-Cost Considerations

Issue 11

We do not believe that the Board has articulated the benefits of eliminating bifurcation-by-risk. We do not believe that the benefits of eliminating bifurcation-by-risk sufficiently outweigh the costs that preparers will incur in implementing the change. We do not believe that either the potential costs associated with ultimate convergence with IFRS or issues users will face in analyzing differences that will be created between IAS 39 and this proposed Standard have been given adequate consideration.

We appreciate the opportunity to comment on the preliminary views document and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact Mark Scoles, Partner, Accounting Principles Group at 312 602 8780.

Very truly yours,

/s/ Grant Thornton LLP