



August 15, 2008

Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: File Reference No. 1590-100, Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, and amendment of FASB Statement No. 133

Dear Mr. Golden:

Reval.com, Inc. appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB" or the "Board") Exposure Draft of the Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities an amendment of FASB Statement No. 133, ("ED"). As a leading web-based solution for derivative risk management and derivative accounting (FAS 133, FAS 157, IAS 39, CICA 3865) for over 200 clients across corporate treasury, banks and insurance, and two of the Big 4 accounting firms, we feel uniquely qualified in submitting a response. Our software, HedgeRx, offers derivative users front-to-back office capabilities for managing interest rate, foreign exchange, and commodity hedging portfolios, including independent valuations, risk management and reporting. Since 1999 we have designed, developed and delivered a comprehensive hedge accounting solution that makes the Standard easier to comply with including an auto-regression tool for calculating assessments, all of the various methods cash flow and option hedging and a robust sub-ledger to help report on properly measuring ineffectiveness and OCI management.

We understand the Board's desire to simplify hedge accounting, improve financial reporting of hedging activities, resolve major practice issues related to hedge accounting, and address differences resulting from how derivatives and hedged items are recognized and accounted for. We generally agree with the intent of the ED, however, we believe the ED should reconsider the following issues to achieve the goals stated above:

Timing:

FASB should consider delaying the effective date from November 15, 2009 to November 15, 2010 to give companies and the audit community ample time to prepare. Although the transition for our clients will be



relatively simple and seamless, companies using short-cut and critical terms match will need the time to understand the impact, prepare the proper documentation and to build or buy the right solution.

A one year postponement will also provide more time to assess the impact of convergence to IFRS and give both the FASB and IASB an opportunity to narrow any gaps between the two standards, with some of the key differences highlighted below. It would be very costly and complicated for US GAAP filers to re-implement hedge accounting again, especially if indeed the differences in principles between FAS 133R and IAS 39 remain as they currently appear today.

Change to Hedge Accounting Model:

The ED changes the hedge accounting model from a bifurcation-by-risk model to a full fair value or cash flow model with two noted exceptions. Using the full fair value and cash flow models creates more volatility in income than the current accounting model as changes in value of hedged items caused by risks that are not being hedged must be included in income. Requiring entities to apply a full fair value or cash flow model as opposed to a bifurcation-by-risk model will force companies to enter into increasingly complex financial instruments to mitigate income statement volatility. The increased complexity of these financial instruments will likely be more expensive and require complex valuation models to perform mark-to-market calculations. We believe that moving away from the bifurcation-by-risk model will not accomplish any of the goals intended in the Proposed Amendment to FAS 133, rather it will increase the complexity in accounting for hedging activities, increase income statement volatility and it will increase the cost of compliance. Furthermore, a move away from bifurcation-by-risk, seems to be a move away from IFRS convergence which, based on numerous FASB statements, seems to be a goal of the Board. Please refer to Appendix A for a numerical example of the level of income statement volatility that could be caused by removing the bifurcation-by-risk model. The example illustrates, quite clearly, that an interest rate swap would not be reasonably effective in hedging the entire change in fair value of a fixed rate bond hedged post issuance.

Change in Hedge Effectiveness Threshold:

We believe the Board's decision to loosen the assessment requirements from "highly effective" to "reasonably effective" will not only cause confusion and inconsistencies in application, but will also create a further divergence from IFRS which has a stated band of 80%-125% under its principle. We feel that the ED has not appropriately defined "reasonably effective", or appropriately explained the Board's reasoning for reducing the restrictions around hedge effectiveness. With the exception of the small change effect for some interest rate fair value hedges, we have found that most appropriate swap and forward hedges with similar critical terms can meet the 80%-125% band for what is currently deemed highly effective. A majority of the FAS 133 restatements appear to be from improperly applying the Short-Cut method and Critical Terms Match, not from using the Dollar Offset Method or a Statistical Approach and meeting the highly effective assessment has not been an issue for our clients who have transitioned off of the abbreviated methods.

The Board states in paragraph A9, "The Board believes that it is necessary to use judgment when determining whether a hedging relationship is reasonably effective." The Board's decision to allow companies to interpret the definition of reasonably effective will not result in the ED's goal of making the accounting model easier to understand for users of financial statements. Without providing additional guidelines around assessing hedge



effectiveness and defining "reasonably effective" companies may inconsistently apply the guidance in the proposed ED. The potential to interpret the Board's definition of "reasonably effective" different from other companies will result in an inconsistent deferral of derivative gains and losses from earnings for similar transactions.

Change in Ineffectiveness Measurement:

The proposed guidance in the ED requires ineffectiveness be recorded in cash flow hedge relationships when an entity is "overhedged" or "underhedged". Any difference between the change in fair value of the actual hedging instrument and the hypothetical derivative instrument will be recorded in current earnings. We believe the requirement to include the ineffectiveness of underperforming hedges will create non-existent losses on the derivative recorded in earnings and a non-existent gain recorded in earnings as an offset. This also appears to create a divergence with IAS 39.

Hedging Intercompany Transactions:

We would like to gain further clarification on the Board's additions to paragraph 40, concerning forecasted Foreign exchange denominated intercompany transactions. The addition to paragraph 40 states, "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.)" We believe there may be several possible interpretations of the limitations created with this addition, and would request additional clarification around the Board's intent on this matter.

Based on our experience, a large number of our clients are currently utilizing hedging strategies in which they hedge foreign exchange risk of forecasted intercompany expenses, royalties, and revenues. Given the importance of this issue to our clients, we are reaching out on their behalf to gain additional insight into understanding whether this is truly a change in guidance, or rather a reinforcement of an already existing requirement to hedge the exposure to a third party. We would like to note that if this addition is intended to amend the current guidance, we request the Board reflect its intent by amending the appropriate DIG Issues as well.

We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board members or the FASB staff at your convenience.

Sincerely,

Jiro Okochi CEO & Co-Founder Krishnan Iyengar Director – Product Solutions Joshua Cohen
Solutions Consultant



Appendix A:

		Hedging Instrument—Interest Rate Swap				
Hedged Item Fixed Rate Bond		Trade Date:	7/3/2007			
Trade Date:	4/4/2007		, ,			
Effective date:	4/13/2007	Effective Date:	7/3/2007			
		Maturity Date:	4/13/2010			
Maturity date:	4/13/2010	Notional:	\$100,000,000.00			
Principal:	\$100,000,000.00	Notional.	\$100,000,000.00			
Coupon:	7.50%	Receive:	7.5000%			
Issue Price:	100	Pay:	3month-UBOR+2.10%			
Issuer Credit Rating:	A USD Financial Institution	Reset:	Quarterly			

Assume that this relationship is designated as of 7/3/2007 and the reporting entity is currently using the bifurcation-by-risk approach (in this case assume the entity is hedging just the interest rate risk of the bond). The hedge effectiveness results would be as follows:

	Hedge Instrument									Total Net	
						Hedged Value of Hedged Item					Periodic
		Periodic	Included (Component	<u> </u>		Periodic	Cumulative			Earnings
		Change		Periodic	Cumulative		Change	Change			
Period	Entire FMV		Value	Change	Change	MTR			Ratio	Effective	
7/3/2007	-52,704		-52,704			-99,389,148					
9/28/2007	1,637,986	1,690,690	1,637,986	1,690,690	1,690,690	-101,565,782	-1,676,634	-1,676,634	1.008	Yes	14,056.26
12/31/2007	3,270,993	1,633,008	3,270,993	1,633,008	3,323,697	-103, 182, 117	-1,616,336	-3,292, 969	1.009	Yes	16,671.84
3/31/2008	5,666,976	2,395,982	5,666,976	2,395,982	5,719,680	-105,591,302	-2, 409 ,185	-5,702,154	1,003	Yes	-13,202.13
6/30/2008	3,277,834	-2,389,142	3,277,834	-2,389,142	3,330,538	-103,208,171	2,383.131	-3,319,023	1.003	Yes	-6,010.97
TOTAL			•							-	11,515.00

In such a relationship the cumulative ineffectiveness that would have been recognized by the entity between 7/3/2007 and 6/30/2008 would have been \$11,515.00.

Now consider the proposed approach in the Exposure Draft. Using such an approach an entity would need to essentially compare the change in fair value of the swap with the full change in the fair value of the bond. Since the bond's issuer is an A-Rated Financial Institution the entity would need to incorporate the value of its credit



in its hedge effectiveness measurement. If the entity considered credit in valuation of the bond the hedge effectiveness results would be as follows:

	Hedge Instrument					,			Total Net
				Hedged Valu	e of Hedge	l Item	Ratio of		Periodic
			.			Cumulative			Earnings
		Periodic	Cumulative		Periodic	Change			
Period	Entire FMV	Change	Change	MTR	Change		Cumulati	Effective	
7/3/2007	-52,704]		-104, 49 8,193					_
9/28/2007	1,637,986	1,690,690	1,690,690	-104,781,407	-283,214	-1,325,470	-5.9697	No	\$ 1,690,689.77
12/31/2007	3,270,993	1,633,008	3,323,697	-105,4\$2,659	-671,252	-2,536,189	-3. 4 823	No	\$ 1,633,007.62
3/31/2008	5,666,976	2,395,982	5,719,680	-106,938,068	-1,485,409	-4,551,471	-2.3 44 3	No	5 2,395,982.38
6/30/2008	3,277,834	-2,389,142	3,330,538	-104,218,866	2,719,202	-1,571,884	11.9234	No	\$ (2,389,142.01)
TOTAL									s 3,330,537.76

If the entity considers credit in its revaluation of the bond, the hedge is not even reasonably effective in hedging the changes in fair value of its bond. In such a case, the entity would recognize \$3,330,537.76 into the income statement.