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LETTER OF COMMENT NO. 61

Technical Director – File Reference No. 1590-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Proposed Statement of Financial Accounting Standards

“Accounting for Hedging Activities

an amendment of FASB Statement No. 133”

We appreciate the opportunity to comment on the proposed statement to amend FASB Statement No. 133. BB&T Corporation and its subsidiaries offer full-service commercial and retail banking and additional financial services such as insurance, investments, retail brokerage, corporate finance, treasury services, international banking, leasing and trust. With over \$136 billion in assets, BB&T Corporation is the nation’s fourteenth largest financial holding company.

We applaud the Board’s efforts to simplify the existing hedge accounting rules. We are very supportive of the Board’s efforts to move to more principles-based versus rules-based standards. We believe this will require more professional judgment, not only by company management, but also by financial statement users and regulatory bodies in their interpretation and comparison of financial statements.

We disagree with allowing interest rate risk hedging only at debt inception. Financial companies use their balance sheet to manage interest rate risk. Fixed rate debt is a tool that can be used to accomplish this objective. Over time balance sheet exposures change and, in turn, require a risk management response. The lack of the ability to hedge only interest rates is a significant disadvantage. The result is either a hedge that would not be effective (as it does not cover credit risk) or one that produces significant earnings volatility. We believe that this does not help users of financial statements as it does not reflect management intent. The recordation of changes in credit spread is relevant only if management is actively trading their balance sheet. Credit risk is unique in that it can be bifurcated into two components: 1) spread risk and 2) default risk. We believe that most investors are concerned with default risk. While ultimately based on probability of default, spread risk is subject to market emotions and at times can bear no relationship to default. We believe the inclusion of spread risk in earnings is not meaningful for the vast majority of companies.

Related to cash flow hedges, we understand the Board's desire to record hedge under ineffectiveness as well as hedge over ineffectiveness. While this creates a consistent model for cash flow hedge ineffectiveness, it does present a situation where nonexistent gains/losses are deferred in OCI. We believe that this situation is more misleading than the current hedge model and urge the Board to reconsider this point.

Hedged Risk

Issue 1:

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?

We believe that the elimination of the ability to designate specific risks impairs the financial statements. Generally, risk management strategies identify and strive to manage a single risk. Furthermore most hedging instruments provide protection for a single risk. The current hedge accounting model allows a user to see how effective management was in obtaining their risk management objective. The inclusion of all risks will produce results that make it more difficult for financial statement users to determine the effectiveness of management strategies. As was noted in the Alternative views as presented in paragraph A56, hedges of fixed rate assets (*if they qualify for hedge accounting under the new standard*) will produce a result that is not meaningful in allowing a user to determine how successful a company was in managing interest rate risk. The inclusion of credit risk in the hedge relationship will confuse the reporting because certain aspects of credit risk will be covered by the allowance for loan losses for unhedged loans while other aspects of credit risk will be reported in a mark to market manner. This will reduce the comparability of the allowance for loan losses between issuers.

Issue 2:

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

Yes. As referenced in our response to Issue 1 above, we believe that the ability to designate specific risks results in accounting treatment that matches the risk management objectives of the hedging strategy and is the most meaningful manner of financial presentation. We believe the current disclosure requirements adequately describe the risks being hedged and not hedged.

Hedge Effectiveness

Issue 3:

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

Calculating the credit risk component for fixed rate asset hedges will create significant operational issues. Combined with the problems noted in Issue 4 below, we suspect it would be very difficult to achieve hedge accounting for these assets under the proposal.

In addition, this could present a burden to corporate hedgers who have historically used the short-cut method. The risk bifurcation model for those companies that are hedging their funding is complex and may require data/resources not currently available. Furthermore, the determination of the hypothetical derivative can at times be a complex issue that may require significant analytics.

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?

We believe that the statement impairs the usefulness of financial statements by removing the short-cut method. With the recent changes to the short-cut method, we believe that there was comparability in the application of the method. Users of financial statements understood the short-cut transaction and the impact on results. The increased complexity of preparation is not offset by the recordation of minimal amounts of hedge ineffectiveness. Both the shortcut method and critical terms matching are consistent with principles based accounting and their use should be expanded, not curtailed.

Issue 4:

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

We believe that the modification is appropriate and is consistent with the move to a more principles based approach. The standard still requires that hedges be effective to continue hedge accounting.

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?

For current fixed rate asset hedges, we will most likely be unable to achieve hedge accounting. These hedges were designed to protect the company from changing interest rates. The interest rate swaps used in these hedges were exceptionally effective. However, they provide little offset for changing credit spreads and as such will probably not qualify for hedge accounting. An unfortunate consequence of the proposal is that this valid risk management strategy is eliminated. A benefit of derivatives is that they allow for very efficient risk management. All fixed rate assets or liabilities exhibit duration which can be efficiently managed with an interest rate derivative. For example, the

duration of a fixed rate loan to a small company can be as effectively hedged as the duration of a fixed rate corporate bond issued by a large multi-national corporation. Credit risk management is much more subjective. Due to liquidity constraints, derivatives that provide credit protection are typically expensive. Furthermore, this protection is typically most effective for large corporate exposures. It would be difficult, if not impossible, to effectively hedge credit risk for small to mid-sized companies. We would most likely adopt another risk management strategy to manage this risk.

Issue 5:

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?

No. Those processes have already been created – see response below.

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?

No. The new standard requires at a minimum a qualitative assessment that the hedging transaction will remain reasonably effective. This assessment is sufficient for the vast majority of hedging relationships (i.e. hedging LIBOR funding with a LIBOR swap that has similar terms) where, absent a significant change in terms, the relationship should always remain effective. Historically, hedge accounting has not been discontinued for these “plain vanilla” relationships. Discontinued hedges have typically been associated with more complex strategies that involved significant statistical models. We believe that these relationships would still require quantitative assessments in the future in order to make the assertion that they will be reasonably effective. As such we do not envision a decrease in the number of transactions that would require discontinuation of hedge accounting due to the proposal. In fact, due to the proposed elimination of risk bifurcation, we would initially expect an increase in the amount of discontinued hedges.

Issue 6:

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?

Yes. We believe that hedge accounting should be discontinued if the hedge becomes ineffective. The assessment of hedge effectiveness after inception should be based upon the facts and circumstances related to the specific transaction. As noted above, certain “plain vanilla” relationships should require no additional effectiveness assessments other than the documentation that the forecasted transaction remains probable (for cash flow

hedges) and that there have been no changes in the terms of the hedged item (fair value hedges) or hedging derivative. Conversely, more complex strategies should require periodic assessment of hedge effectiveness.

Presentation of Hedging Gains and Losses

Issue 7:

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.

No. We do not believe this is required. Our experience is that most market participants already follow this method of presentation and no further guidance on this topic is required. We would not have strong objections if the Board required such presentation in order to ensure consistency between preparers.

Effective Date and Transition

Issue 8:

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

No. We believe that implementation will require a minimum of fifteen months after the issuance of a final standard. This time is necessary to allow for management and external auditors to fully address issues and allow for their systematic implementation.

Issue 9:

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.

No. We believe that companies should be given the latitude to disclose the transition based upon their unique facts and circumstances.

Issue 10:

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?

Yes. We agree with both of these decisions.

Benefit-Cost Considerations

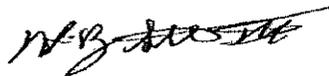
Issue 11:

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?

We believe the Board has done a thorough assessment of the costs/benefits associated with the proposal. However, we believe that the Board has overestimated the cost of the current effectiveness testing and underestimated the cost of eliminating risk bifurcation (related to debt hedges at inception). This is not a significant issue for most financial institutions, but could be a major issue for many corporate hedgers who have used the short-cut method in the past.

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,



Henry R. Sturkie, III
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