

LETTER OF COMMENT NO. 5



September 19, 2007



Jeffray L. Obermayer Vice President and Controller

To the Director at FASB.org:

We are greatly concerned by your current proposal (DIG E23) for changing the rules that apply to the FAS133 standard, more specifically, to the application of the short-cut method for interest rate derivative instruments. After thorough consideration, our opinion is that the proposed amendments are not acceptable and will present a rather significant burden to those who have been properly following current accounting standards.

The current guidance in FAS133 does not require a hedge's fair value to equal par value at inception, nor does Paragraph 68 express any specific prohibition of hedges entered into after the inception date of the underlying liability. Moreover, footnotes to Paragraphs 115 and 134 stipulate the trade date of the swap and the borrowing date of the debt "need not match for the assumption of no ineffectiveness to be appropriate." Thus, FAS133 has always expressly permitted hedging on a date after the initial issuance of the debt obligation (instances where trade date and borrowing date do not match), consistent with long-standing interpretations in practice. A decision by the Board now to ban post issuance hedges would significantly amend Statement 133.

The shortcut method was developed to (1) address cost-benefit issues with complexities in longhaul methods and (2) simplify accounting and computations for ordinary interest-rate risk management. These issues remain legitimate and significant, especially for corporations with (a) limited derivatives activity and (b) neither sophisticated systems nor FAS133 experts in house. Based on the current guidance, we had the complete expectation that the shortcut method would apply to our interest rate derivative portfolio and had the full intention of using the shortcut method until maturity. Changing the rules now will force us to acquire additional resources, resulting in a significant expense that has not been budgeted and definitely would have been a material consideration when making the original decision to hedge. We cannot express how disappointing it would be to interrupt any of our current initiatives to redirect additional resources for long-haul effectiveness testing, which we consider to be completely unnecessary. Before changing the current standard the FASB should conduct a cost/benefit study of the implementation expense that would be required for DIG E23 compliance.

Continuing to use the short-cut method will still provide an accurate representation of the hedging relationship and will be consistent with the current, sound financial reporting principles. When all other criteria in Paragraph 68 are satisfied, the economics and underlying cash flows of the hedge are represented for late hedges as faithfully as they are for shortcut hedges (the latter often having some inherent ineffectiveness that the FASB has considered acceptable e.g. noncomparable credit risk between the derivative and hedged item). Importantly, any change in fair value of the debt is reflected in the net economics of the hedge relationship prospectively and is recognized accordingly each period as a result of the accruals on both the swap and the hedged debt. Consequently, the shortcut approach remains faithful to the economics.

We hope you can appreciate the fact that our concern is not unique and there are many other companies that will be adversely affected by your proposal. At a minimum, transition provisions should include grandfathering the short-cut method for existing hedges that previously qualified.

It is unfair and unreasonable to assume companies can simply move to a long-haul approach, especially considering the lack of guidance that has been provided for long-haul testing. Many companies entered into hedges understanding the shortcut treatment was appropriate and available, and a part of the overall hedging activity decision making process. Long-haul approaches are difficult even for sophisticated reporting entities, and many companies lack the systems, resources and/or internal expertise for the long-haul method.

We ask that you consider our concern and factor it into your decision making process. Please recognize that your current proposal will create unnecessary and, potentially, unreasonable challenges. We are open to enhancements in financial reporting; however, it must not be punitive to those who have been faithfully following the rules since FAS133 was implemented eight years ago.

Sincerely,

Jeffery L. Obermayer

Vice President - Controller & Principal Accounting Officer