



September 19, 2007

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

Re: File Reference: Proposed Issue E23

Dear Mr. Golden:

The 12 Federal Home Loan Banks appreciate the opportunity to respond to the proposed Statement 133 Implementation Issue E23, Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68 (the "proposed issue").

We commend the Board for addressing the implementation difficulties in the application of paragraph 68 (the shortcut method) of Statement of Financial Accounting Standard No. 133 (SFAS 133). Although we generally support the clarifications provided in the proposed issue, we recommend the deletion of the guidance in paragraph 5 and request clarification of the transition guidance as further detailed below.

With respect to the recommended deletion of paragraph 5, it states "the par value of the hedged item is not required to equal its fair value at inception of the hedging relationship provided that the difference (a discount or premium) is attributable solely to the market convention of rounding the coupon rate." We agree with the three Board members who dissented to the proposed guidance provided on this issue, as we also believe that SFAS 133 does not currently include this requirement, and such a requirement should not be added. We also agree that the guidance in SFAS 133 explicitly permits the hedged item to have a purchased premium or discount and still qualify for the shortcut method based on paragraph 114, as cited in the proposed issue, and Statement Implementation Issue E20. In regards to Issue E20, the underlying principle is that the carrying amount of the hedged item is economically unrelated to the embedded call option. We believe this principle can be analogized to the proposed issue. Specifically, any premium or discount in the original carrying amount is economically unrelated to whether the hedging instrument (e.g., interest rate swap) will offset subsequent fair value changes in the hedged item. Accordingly, any discount or premium in the hedged item's initial carrying amount is therefore irrelevant in the determination of whether paragraph 68(e) is met.

In regards to our request for clarification of the transition guidance, please amend the following transition provision to clarify the treatment of an existing adjustment to the carrying amount of the hedged asset or liability on the effective date: "If the hedging relationship had been a fair value hedge, the recognition in earnings due to adjustment of the carrying amount of the hedged asset or liability for the period prior to the effective date shall not be reversed."

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Under the shortcut method of accounting, the carrying amount of the hedged item is adjusted by the fair value change in the related hedging instrument. Under the "long-haul" method of accounting, the hedged item is marked to fair value independent of the hedging instrument. At the time of transition under the proposed issue, there will more than likely be a difference between the fair values under the shortcut and long-haul methods of accounting. We believe that this provision implies that amortization rather than immediate recognition is appropriate for this difference since immediate recognition of the difference would result in part of the carrying amount adjustment being reversed on the effective date of the proposed guidance. However, this may raise a significant operational issue for some entities since the amortization of the difference must be computed and would need to be considered in determining the appropriate SFAS 133 carrying value adjustment for the hedged item.

We believe that <u>either</u> prospective amortization of the difference described above or a cumulative-effect adjustment to the opening balance of retained earnings on the effective date should be permitted. We have concluded that such an adjustment is consistent with SFAS 159 and should be allowed as an alternative to ease the operational burden. Such an approach will also eliminate any confusion with respect to the transition provisions of SFAS 159 in cases where an entity is electing the fair value option because election of the fair value option could result in part of the carrying amount adjustment being reversed on the effective date of the proposed issue (assuming transition for both on 01/01/2008).

We suggest that it also would be useful to provide examples of the financial statement impact of the de-designation of a hedge relationship that was accounted for under the shortcut method and simultaneously re-designated in a hedge relationship accounted for under the long-haul method of accounting on the effective date under both of the above alternatives. Illustration of the continuing impact (i.e., under the amortization election) would also be extremely useful in the final issue.

We thank the Board for its consideration of our views and would welcome the opportunity to further discuss this matter with the Board members and their staff. Please do not hesitate to contact me at (415) 616-2603.

Sincerely,

Vera Maytom/DRA Vera Maytum

Senior Vice President and Controller

Federal Home Loan Bank of San Francisco

(on behalf of the 12 Federal Home Loan Banks as Chair of the Controller's Committee)