

FASB TECHNICAL DIRECTOR
August 15, 2013

PCC - 13 - 03

In the May 26, 2010 ED on Financial Instruments and Hedging, the FASB proposed to eliminate the use of the Short-cut and Critical Term Match approaches for assuming no hedge ineffectiveness. This part of the ED has not been redeliberated by the FASB. However, the Critical Term Match approach is a key part of PCC - 13 - 3.

Before I joined the Board I was attracted to synthetic accounting for various combinations of instruments and derivatives. As a Boardmember I observed that this approach was not representationally faithful to the separate instruments and derivatives. In most cases the instruments and derivatives have different counter parties (sometimes this occurs after the initial transactions) and thus different nonperformance risks. Also independent actions can be taken with respect to the two items.

If this PCC ED is issued as a alternative, will this be the first of many synthetic instrument proposals?

This not the time nor place to make a major change in the accounting for derivatives.

Contact me at [ewtrott@gmail](mailto:ewtrott@gmail.com) if you would like to discuss.

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