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August 14, 2008

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



LETTER OF COMMENT NO. 31

Re: Exposure Draft: Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133

State Street Corporation (State Street) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) June 6, 2008 Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133 (Proposed Statement or Exposure Draft).

State Street is a financial holding company organized under the laws of the Commonwealth of Massachusetts which, through its subsidiaries, provides a full range of products and services for institutional investors worldwide. State Street is a leading specialist in meeting the needs of institutional investors with \$15.26 trillion of assets under custody and \$1.89 trillion of assets under management as of June 30, 2008.

Overall, we support the Board's objectives of seeking to simplify and improve the accounting and financial reporting, resolving major practice issues and addressing recognition and measurement anomalies all of which can be overly complex and often difficult to understand and apply. However, we do not believe that this Proposed Statement, in its entirety, fully accomplishes those objectives.

Our comments on certain issues raised by the Board within the Proposed Statement in addition to other observations and comments are provided below.

Hedged Risk

We believe that the bifurcation-by-risk approach should be retained provided it is consistent with an underlying risk management strategy for a discrete hedged risk. The Alternate Views of the Proposed Standard appropriately state that derivatives are used by risk managers to hedge

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discrete risks. The removal of an accounting framework that aligns the accounting with this basic risk management strategy may prevent basic highly effective hedge strategies from achieving hedge accounting since unhedged risks would become part of the analysis under the Proposed Standard. Furthermore, even if hedge accounting can be achieved, the measurement of the variability caused by unhedged risks would be inconsistent between instruments for which at least one discrete risk is hedged and instruments for which no discrete risks are hedged. This measurement dichotomy would result in less comparability between financial statements, and it may also deter firms from pursuing basic risk management strategies if the volatility in earnings can be avoided by applying no hedge at all.

We acknowledge that the Proposed Statement is intending to remove the bifurcation-by-risk approach for fair value hedges to require a hedged item's fair value to be the sole measurement attribute for financial statement recognition in order to better reflect the risks associated with the hedged item. However, because of the potential for prudent hedging strategies being disqualified from hedge accounting altogether, and because of the inconsistent measurement of the variability associated with unhedged risks, we believe that the elimination of the bifurcation-by-risk approach does not improve the financial reporting of hedging activities. This result, when coupled with the disclosures required under FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (SFAS 161), will result in more relevant financial statement information to the user on the activities and risk management strategies of the reporting entity.

However, if the Board decides to remove the bifurcation-by-risk approach, we recommend that the Board do so only for the fair value hedge accounting model. If the Board's ultimate objective is to move towards full fair value accounting for assets and liabilities, and forecasted transactions are not eligible for any fair value option, then a fair value alternative should be permitted through the use of a bifurcation-by-risk approach for cash flow hedges

Hedge Effectiveness

We support the proposal to change the effectiveness threshold from highly effective to reasonably effective. We believe this will reduce complexity and allow for management to align accounting with underlying economic intentions. In addition, we support the proposal to require an effectiveness assessment at inception only with an ongoing monitoring for circumstances that indicate that the hedge relationship may no longer be effective. While we acknowledge that this ongoing assessment will result in a change to the control environment and may result in more management judgment to assess whether a hedge relationship remains reasonably effective, it results in an accounting model that is more closely aligned with the nature of the risk management strategy, rather than relying on a quantitative model to support an assertion of hedge effectiveness.

Presentation of Hedging Gains and Losses

We support the decision not to prescribe income statement classification of gains and losses since we believe that the classification should be consistent with the intent and underlying characteristics of the hedge relationship. In addition, a prescription for income statement classification for gains and losses would be inconsistent with the objective of simplifying

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accounting for hedging activities due to the potentially wide array of risk management strategies. We believe that financial statement classification of hedging activities will be more transparent with the incremental disclosures provided for with the issuance of SFAS 161.

We would like to thank the FASB for providing us the opportunity to express our views on the Proposed Statement. Please contact me at 617-664-8697 if you would like to discuss our comments further.

Sincerely,

James J. Malerba

Executive Vice President and Corporate Controller