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August 15, 2008

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 62

Re: File Reference No. 1590-100, Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities – an amendment of FASB Statement No. 133

Cardinal Health, Inc. (the "Company") appreciates the opportunity to provide comments and observations on the Exposure Draft of Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133. While we acknowledge that there are certain improvements under the proposed statement (e.g., the reduction in the effectiveness threshold to "reasonably" from "highly effective" and the elimination of ongoing effectiveness testing requirements), we believe certain of the changes in the exposure draft to be contrary to the stated purpose of simplifying hedge accounting and improving usefulness of financial statements. Our concerns with the current proposal are as follows:

<u>Comment 1:</u> The proposed statement diverges from IFRS in a period when we should be moving towards convergence.

Although the elimination of the "shortcut" and "critical terms match" methods are consistent with IAS 39, other proposed changes would not converge with IFRS. Any of these changes should be deferred unless IASB adopts similar provisions.

<u>Comment 2:</u> The ability to designate interest rate risk as the hedged risk in a hedge of a company's own debt should be maintained and should apply in all cases rather than only when the debt is hedged at inception (including cash flow hedges of forecasted debt issuance).

Although conceptually, in certain instances', a total risk hedge may be the ideal risk management practice, there is not currently, nor is there likely to be, a market in which entities could hedge their exposure to their own credit risk. This inability for an entity to hedge its own credit risk derives from concerns around insider information and self-dealing. As such, Cardinal Health would not have any

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¹ It is important to note that in certain market environments, such as the market experienced since the credit dislocation of June 2007, there is a strong financial risk management rationale for pricing benchmark interest rates and credit spreads at different points in time. In environments where a negative correlation exists between treasury rates and credit spreads (flight to or from quality movements), it is prudent for an entity to remove pricing risk prior to debt issuance through a hedge of the benchmark interest rate to allow itself to concentrate specifically on credit spreads at the time of pricing.

alternatives to the hedging strategies currently employed which would allow the Company to hedge the total risk of a fair value or cash flow interest rate exposure.

Further, the ability to hedge benchmark interest rate risk when a fair value hedge is executed simultaneously with debt issuance, but not otherwise, impairs the comparability of financial statements. The economic exposure to credit spreads is identical between a company that executes a hedge at issuance and one that executes a hedge at a later point in time, but the accounting for two such hedges would be materially different under the proposed statement.

As the intent of the proposed amendment is not to eliminate economically beneficial and widely employed hedging strategies, Cardinal Health strongly urges FASB to reconsider the elimination of the ability to designate benchmark interest rate risk as the hedged risk in a hedge of a company's own debt.

Comment 3: The elimination of the ability to bifurcate risks will impair the usability and comparability of financial statements.

The derivatives commonly employed by Cardinal Health are generally designed to hedge only a single risk. Under the proposed rules, unhedged risks would be marked-to-market only for transactions where one or more risks were hedged. Therefore, this proposal could provide incentive for certain entities to avoid marking-to-market certain risks by not hedging exposures. For example, it is likely that entities will cease to hedge the interest rate risk associated with forecasted debt issuances under the proposed amendment due to a mismatch between the accounting and economic results of the hedge. A comparison of Cardinal Health's financial statements to an entity that did not engage in prudent financial risk management activities would be difficult for financial statement users to conduct and could lead to incorrect assessments of risk; both firms may have exposure to the same unhedged risks, but they would only be reflected in the financial statements of Cardinal Health.

<u>Comment 4:</u> The statement should include greater clarity on the meaning of "reasonably effective" and when a quantitative assessment of effectiveness is or is not required.

While a move to principles based accounting is beneficial, some clarification is needed around the meaning of "reasonably effective". Although the revision to the effectiveness standard from "highly" to "reasonably" effective is appropriate as the prior requirement for quantitative assessment in all cases was unduly onerous, the absence of clear guidance as to the meaning of "reasonably" effective and when quantitative analysis is required will likely mean that Cardinal Health will hold itself to the strictest possible interpretation in order to protect itself against future restatements. Given this ambiguity, the Board's goal of simplifying hedge accounting will not be realized.

<u>Comment 5:</u> Given the elimination of the ability to bifurcate risk on interest rate hedges, greater instances of ineffectiveness will occur in hedges ceasing to be "reasonably effective", which impairs the usability of financial statements and may impose undue costs for the reporting entity.

Hedges may be reasonably effective in most periods, but from time-to-time become ineffective (e.g., during periods of high credit spread volatility). Users of Cardinal Health's financial statements would find it difficult to compare one period to another because the application of hedge accounting may vary over time and without warning. In addition, it may be impossible to qualitatively determine when a change in circumstances has occurred which might cause a hedge to be less than reasonably effective. The requirement to monitor hedge relationships for a change in circumstances therefore imposes a cost which may be just as onerous as the prior requirement of ongoing effectiveness testing.

<u>Comment 6:</u> There is no clear methodology for a company to use when valuing its own credit spreads and new issue premiums.

Market indications for these metrics can vary widely at the same point in time depending on the source.

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Comment 7: Please clarify the meaning of the amendments to paragraph 40 of SFAS 133.

It is unclear as to whether this new language prohibits hedging of forecasted intercompany foreign exchange cash flow transaction exposures.

We appreciate the Board's consideration of our comments on the Exposure Draft of Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133.

Sincerely,

Matthew Blake

Cardinal Health

Manager, Financial Risk & Capital Markets

Cc: Linda Harty, Executive Vice President and Treasurer

Jorge Gomez, Executive Vice President and Controller

Stu Laws, Chief Accounting Officer

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