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LETTER OF COMMENT NO. 11

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

Re: File Reference: Proposed Issue E23

Dear Mr. Golden:

As a sophisticated investor with a strong command of financial analysis I am taking the opportunity you extended to provide the following comments with respect to the Financial Accounting Standards Board's (the "FASB") proposed Statement 133 Implementation Issue E23, "Issues Involving the Application of the *Shortcut Method* under Paragraph 68."

The newly proposed change that prohibits an entity from applying the shortcut method to a "late" fair value hedges is clearly a significant change to SFAS 133. It is my view this drastic change should not be made as I strongly disagree with the FASB's basis for proposing this specific provision— that paragraph 68(e) of SFAS 133 implies that the par value of a hedged item designated in a fair value hedge must equal its principal amount at the inception of the hedging relationship— as paragraph 68 includes no specific prohibition for late hedges and there is clear evidence in SFAS 133 and its authoritative interpretations indicating that the late hedges are expressly permitted. The footnote to paragraphs 115 and 134 state that 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".

Let's step back from the details of technical accounting standards for a moment and discuss why companies enter into interest rate swaps in the first place. I don't know of a single company that swaps their fixed debt to floating for the purpose of hedging the fair value of their debt. The fair value hedge just happens to be the only hedge accounting designation that could be applied to interest rate swaps.
The reality is that companies are hedging their exposure to interest rates. For example a firm may have a large cash balance, as interest rates go down - so to will income, having floating debt will lower expenses at the same time income is falling thus reducing the variability of their results. Other exposures to interest rates may arise from pension liabilities, or the cyclicality of the business. With a cyclical business as the economy weakens interest rates will generally decline (there is a strong link to GDP and interest rates) and the results of a firm's operations will also suffer, therefore having floating debt exposure will lower expenses when the business is down. Interest rate swaps are an important risk management tool for corporations. When I invest in a business I don't want to be taking a hidden bet on interest rates, I want the management of the business to have the appropriate tools to hedge unwanted risks.

To allow short-cut at issuance but not after is inconsistent. This penalizes firms for making important timing decisions. Let's suppose all forecasts are for rising interest rates as was the case in 2004 (when the fed funds rate was 1% and was followed by 17 consecutive rate hikes), a corporation may prudently decide to delay entering into interest rate swaps to floating. Why should they only be able get shortcut accounting upon debt issuance? Another example, suppose a company issues its fixed rate debt when its cash balances are very low and it isn't exposed to a high degree of interest rate risk and that later changes as cash is built up in subsequent periods and the company now wants to hedge interest rate risk. Perhaps a firm becomes more correlated to the economy through fundamental changes or acquisitions and wants to hedge it's exposure. I would argue shortcut should be available for this prudent and plain vanilla hedging tool regardless of the timing of original debt issuance.

Concerns over the cost and complexities of long-haul accounting for common straight forward interest rate risk management practices led to the development of shortcut; these concerns are just as valid today. The elimination of the ability to use the shortcut method for "late" hedges will have a significant negative impact, and will eliminate the ability of some corporations to utilize interest rate hedges at all. Some companies will abandon prudent risk management strategies or will have to cope with income statement volatility that does not reflect the underlying economics. Long-haul accounting and effectiveness measurements and testing involve complex and tedious analyses that aren't well understood or explained. It requires sophisticated statistical analysis to measure something that isn't a real economic cost and should not be included in financial statements. Many companies simply don't have the systems, resources, or expertise to perform this analysis. The results from interest rate swaps are already made clear in the financial statements, adding ineffectiveness into the picture does not add any clarity or transparency for the investor as this metric does not reflect real economics. Forcing companies to spend time and money (shareholder money) on something that neither serves them or investors seems illogical at best. Election of the fair value option will not solve this problem for companies as taking volatility of credit spreads into financial results is not practical or relevant to operating results. From my perspective it would be much better to have companies footnote some economic metrics on the swap trades themselves such as the value at risk (VAR) or the combined mark-to-market on these trades (note these metrics are only important if a firm decides to exit the positions in which case they would show up in the financials) .

The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information. Who is served by this change? I argue no one is served by this change, in fact quite the opposite. In summary reductions in hedging activity, increased cost ultimately passed to shareholders, and decreased clarity in financial statements doesn't serve investors therefore, I strongly object to FASB including the provision regarding "late" hedges in the final DIG Issue and ask that you reconsider this matter.

Should the FASB decide to ratify the proposed DIG Issue as currently drafted it must also provide detailed instructions on how to perform long-haul accounting as this currently does not exist and to explain in detail how investors should interpret this noise in the financials.

I hope you find these comments beneficial. Should you have any questions or desire any clarification concerning the matters addressed in this letter please do not hesitate to contact the undersigned.

Sincerely,

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