



Susquehanna Bancshares, Inc.

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August 11, 2008

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



LETTER OF COMMENT NO. 107

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

Dear Mr. Golden:

Susquehanna Bancshares appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Exposure Draft of Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (the "Exposure Draft"). Susquehanna Bancshares, Inc is a financial holding company that provides a wide range of retail and commercial banking and financial services in the mid-Atlantic region. Susquehanna uses financial derivatives to hedge its interest rate risk both on the liability and asset side of the balance sheet. Hedging also provides Susquehanna an effective management tool in hedging future anticipated financial transactions.

Although we support the FASB's desire to simplify the accounting for hedging activities, resolve certain practice issues, and improve the financial reporting of hedging activities for users of financial statements, we do not believe that the Exposure Draft, as currently drafted, meets those objectives. Rather, we are concerned that certain of the proposed amendments will result in significantly increased complexity, increased costs, and less reliable and meaningful financial reporting.

Most significantly, we disagree with the decision to prohibit (except in the very limited circumstances provided for in the Exposure Draft) an entity from hedging individual risks. Our company is very concerned that we will be unable to qualify for hedge accounting—even using a "reasonably effective" standard—for many of our most common and straightforward hedging strategies, including hedges of forecasted debt issuances and

hedges entered into after the inception of the debt. Even in situations in which we do qualify under the new model, we believe the associated earnings volatility often will be extreme and largely misleading. As a result, we are troubled that the proposed hedging model appears to be very inconsistent with how we manage our risks and will be unrepresentative of the effectiveness of our risk management activities.

For example, we actively manage our interest rate risk and enter into derivative instruments that are extremely effective at managing that risk, such as forward-starting swaps to hedge forecasted sales of fixed-rate assets. Management's intent is to hedge only changes in sales proceeds of the sold loans due to changes in interest rates. However, the proposed model in the Exposure Draft will give rise to significant volatility because it will require the inclusion of credit risk and other risks in the measurement of effectiveness. The Company manages credit risk on the loans through its underwriting standards and accepts that risk because it is the way banks make money. Even if it wanted to hedge the credit risk (as opposed to marking that risk through its income statement without offset), there are no derivative instrument available to provide offset for individual borrowers. Accordingly, we do not believe the proposed model is reasonable or operational in practice, and we strongly advocate that the FASB retain a "bifurcation-by-risk" approach to hedge accounting.

A related concern is that the new hedge accounting model is heavily based on unobservable and unreliable inputs. For many companies, including ours, reliable and up-to-date credit data is not readily available. In addition, for hedges of forecasted debt issuances, we have almost no information about the market supply and demand that will exist at the date we expect to issue our debt. We are concerned, therefore, about the complexities of trying to model theoretical transactions in theoretical markets. It is certainly not a simplification relative to the current bifurcation-by-risk model.

We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,
Mark J. Cvrkel



Vice President & Risk Management Controller
Susquehanna Bancshares Inc.