



United States Steel Corporation
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via email: director@fasb.org

Mr. Russell Golden
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 1810-100 Proposed Accounting Standards Update – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (“the Exposure Draft”)

Dear Mr. Golden:

United States Steel Corporation (U. S. Steel) appreciates the opportunity to provide comments to the above referenced Exposure Draft. We support the Board’s objective to provide financial statement users with a more timely and representative depiction of an entity’s involvement in financial instruments, while reducing the complexity in accounting for those instruments. However, we do not understand the basis for the proposed change to the criteria for the use of the equity method of accounting as we are not aware of current practice issues that would necessitate or justify such a change. Additionally, we do not agree with the proposed changes to the measurement of financial liabilities. We believe that the measurement attribute for convertible debt and most other financial liabilities should be amortized cost. We have responded to the questions specifically addressing these areas of concern.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity’s consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We do not agree with the proposed change to the criteria for the use of the equity method of accounting. We believe that an investor’s ability to significantly influence the activities of an investee should remain the key criterion in determining whether the equity method of accounting is appropriate, regardless of the relationship of the investee’s activities to the investor’s consolidated operations. We do not understand the basis for the proposed change to the criteria for the use of the equity method of accounting as we are not aware of current practice issues that would necessitate or justify such a change.

However, if the Board intends to include the change in the final standard, we believe that the guidance in paragraph 130 should be clarified. The proposed guidance for determining if the operations of the investor and the investee are related is unclear. We are unsure as to whether multiple factors are necessary or whether one significant factor may be sufficient to conclude that the operations are related. Additionally, the level at which the guidance should be applied is unclear. For example, U. S. Steel is an integrated steel producer of flat-rolled and tubular products. However, we also have a real estate division. It is unclear to us if the “related” criterion should be applied to our real estate division’s equity investments by considering our real estate operations or by considering the operations involving the production of flat-rolled and tubular products. We think that the ambiguity of this criterion will lead to diversity in practice.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible Debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer’s perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principle will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board’s application of the proposed subsequent measurement guidance to convertible debt? If not, why?

We do not agree with the proposed subsequent measurement guidance related to convertible debt. We feel that amortized cost is a more relevant measure than fair value for convertible debt as well as for most other financial liabilities except for derivative instruments and financial liabilities held for trading. We do not understand the rationale for measuring convertible debt at fair value with changes in fair value recognized in net income. We normally issue debt, including convertible debt, for general corporate purposes, such as the acquisition or construction of assets for use in our core operations. These assets are generally accounted for at amortized cost. Therefore, it does not seem logical to measure issued debt at fair value as it would create a measurement attribute mismatch.

Changes in an entity’s own credit risk will lead to fluctuations in the fair value of convertible debt. The resulting income statement volatility would confuse investors and other financial statement users. We believe that the relevant information about the fair value of convertible debt and other financial instruments is already disclosed under current Generally Accepted Accounting Principles. Further, the underlying shares for convertible debt are already included in the dilutive earnings per share calculation. Since there is another project on the technical agenda related to financial instruments with the characteristics of equity, we feel that it is premature to require this proposed guidance

until such a time that the project is completed. However, if the Board decides to move forward with a final standard prior to the completion of that project, we believe that the Board should provide an exception for convertible debt.

We appreciate the opportunity to express our views and concerns regarding the Exposure Draft. If you have any questions with respect to our comments, please call Kim Fast, Director – External Reporting, at 412-433-5572.

Sincerely,

/s/ Gregory A. Zovko
Gregory A. Zovko
Vice President & Controller