September 30, 2010

Via e-mail director@fasb.org

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

Re: File Reference No. 1810-100, Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Board Members and FASB Staff:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

Union Bank, N.A. is a wholly owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd with about $84 billion in assets. As a commercial bank, we provide a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, and Washington, as well as nationally and internationally. We file U.S. GAAP financial statements with the SEC on a voluntary basis.

Summary
We support simplifying hedge accounting. We do not support fair value as the appropriate measurement principle for nearly all financial instruments. We do not agree with the proposal's view on core deposits, and we do not think that expectations about future economic conditions or events should be excluded from an impairment analysis.

Fair value measurement for substantially all financial assets and liabilities

We strongly disagree with the proposal to measure nearly all financial assets and liabilities at fair value. Financial instruments should continue to be valued based on management intentions. For example, loans and deposits are held for the long-term collection and payment of cash flows. We do not trade these instruments and do not use fair value measurements to manage them.

The application of fair value accounting to such instruments has significant challenges:

- Observable market prices are not readily available for many instruments currently held at amortized cost, which would lead to an increase in Level 3 measurements and the use of highly subjective valuation models that are costly to build and maintain.
- There is a pro-cyclical effect on earnings and capital. Recognition of declines on long-term instruments that will not be realized in short-term cash flows will introduce volatility distortion.
- Expanding the application of fair value accounting to such instruments is contrary to existing and proposed IFRS, as well as the convergence project.

- In general, mark-to-market volatility across the balance sheet will encourage expanded, but unnecessary hedging activities, with increased economic costs. Firms will seek to dampen the impact of mark-to-market on earnings and capital by using costly derivatives to hedge out volatility.
- The proposal differs significantly from how IFRS applies fair value accounting. We believe that any new proposed guidance should be harmonized with IFRS.

Finally, according to a recent survey by PricewaterhouseCoopers[1], while users of financial statements generally believe that fair value is useful for liquidity or capital adequacy analysis, a mixed measurement model in which amortized cost is used to measure loans and deposits is preferable for the majority of investors.

Credit impairment:

The Proposal is to establish a model for recognition and measurement of credit impairment of financial assets measured at fair value with qualifying changes in fair value recognized in OCI on the basis of expectations about the collectibility of cash flows. The Proposal further states that such expectations would include all available information relating to past events and existing conditions, but would not consider potential future events beyond the reporting date.

While the Proposal removes some of the subjectivity in estimating future events and conditions, it is not clear how this reconciles with Exposure Draft's proposed increase in Level 3 measurements for many instruments currently held at amortized cost, as more instruments would be measured at fair value in Level 3.

By excluding assumptions about future events, one would effectively be assuming a zero effect for those assumptions. This seems inappropriate for factors that have been historically tracked and can be forecasted with some degree of reliability. Ignoring the future would also cause losses to be recognized too late during growing economic cycles and too early in shrinking ones.

Therefore, we disagree with the proposal to exclude expectations about future events from a credit impairment analysis. Since credit impairment decisions are intended to reflect management's best estimates of amounts that will not be collected, we believe it is appropriate to include expectations about all events and conditions that will impact, for example, loan performance.

Instead, we recommend instead that future losses be estimated at inception and at each reporting period on an expected losses basis that reflects considerations of the future. Losses related to interest income should be kept separate from credit losses. Determination of credit losses can be simplified instead through the use of market metrics that reflect reasonable expectations about the future as opposed to developing complicated cash flow estimates.

Hedging

We support the FASB's efforts to simplify the accounting for hedging activities and relax the qualifying criteria for applying hedge accounting. The elimination of the shortcut and critical terms matching methods, and replacing them with a "reasonably effective" concept, should reduce concerns regarding the disqualification of hedge accounting as a consequence of unintentionally misapplying those methodologies.

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[1] What Investment Professionals Say About Financial Instrument Reporting", June 2010

We support the relaxation of the qualifying criteria for applying hedge accounting and believe this new approach will ease the burden associated with applying hedge accounting. While we agree there should not be a "bright line" defining hedge effectiveness, it would be useful for the Board to provide interpretive guidance in the final standard about whether a hedge is reasonably effective as well as when a quantitative evaluation is required, and when a qualitative evaluation is sufficient. It would also be useful to have illustrative examples for some of the most common hedging strategies, such as one example in which a qualitative assessment is sufficient and one in which it is not.

We also note that in the discussion of the Board's rationale for not defining reasonably effective, the Board suggests that the evaluation of hedge effectiveness should consider the accounting objective for initially applying hedge accounting. We believe that the evaluation and measurement of hedge effectiveness should be based on economics, and the accounting reasons for applying hedge accounting is separate.

The proposal continues to permit an entity to include the time value element of a purchased option in the assessment and measurement of hedge effectiveness but indicates that the time value be recognized in earnings on a "rational basis". We believe it would be helpful if the final standard includes guidance as to whether the existing methods of recognition will continue to be appropriate (i.e., the current approach under DIG Issue No. G20 under which if an entity chooses to base its assessment of hedge effectiveness based on total changes in an option's fair value, the time value element is recognized in earnings when the hedged item affects earnings) or whether another approach, such as straight-line, would be required. Since companies already have processes in place to recognize the time value element associated with options in net income based on DIG Issue No. G20, they should have a choice of applying straight-line or constant yield amortization.

In conclusion, any changes to income recognition, impairment, valuation or hedging accounting will require substantial systems and process changes. Preparers and regulatory agencies will need time to implement change. We strongly encourage the Board to provide an appropriate transition period for any new guidance.

We appreciate your consideration of our comments. If you have any questions or would like to discuss any of our comments further, please contact me at (415) 765 2696.

Sincerely,

Rick Martin
Accounting Policy Manager