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September 30, 2010

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

Re: **File Reference 1810-100**, Proposed Accounting Standards Update, "*Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*"

Dear Mr. Golden:

Merck & Co., Inc. is a global health care company that delivers innovative health solutions through its medicines, vaccines, biologic therapies, and consumer and animal products, which it markets directly and through its joint ventures. We are pleased to provide you with our comments on the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Proposal").

Convergence:

We support the FASB and IASB efforts to work jointly toward a converged standard on accounting for financial instruments, however significantly different proposals have been released by the Boards. We are encouraged that the Boards have committed to work together during the redeliberations phase to try and achieve convergence in this area.

Hedge Accounting

The Proposal lowers the threshold for achieving hedge accounting from "highly effective" to "reasonably effective" and provides that effectiveness only be assessed at the inception of the hedging relationship unless "circumstances suggest that the hedging relationship is no longer reasonably effective in offsetting." We support these efforts to simplify hedge accounting and reduce the need for companies to devote a significant amount of resources to perform quantitative statistical analyses to prove effectiveness of relationships which can easily be assessed qualitatively.

We are concerned, however, that the Proposal precludes an entity from electively dedesignating a hedging relationship. Since hedge accounting by its nature is elective, the ability to voluntarily

discontinue it would also seem appropriate. Under the Proposal, the elimination of voluntary dedesignation reduces the flexibility to apply appropriate and efficient hedging approaches which results in increased transaction costs and administrative burden. We therefore request the FASB reconsider this restriction.

In addition to the above, we recommend the Board clarify certain aspects with respect to measuring and reporting ineffectiveness in a cash flow hedging relationship. Specifically, paragraph 126 of the Proposal states:

"For cash flow hedging relationships in which the designated forecasted transaction is the variability in cash flows related to a group of transactions within a specific time period, an entity may measure ineffectiveness by comparing the change in fair value of the actual derivative designated as the hedging instrument with the change in fair value of a derivative that would settle within a reasonable time period of the cash flows related to the hedged transactions. That time period is reasonable if the difference is minimal between the forward rate on that derivative and the forward rate on a derivative or derivatives that would exactly offset the changes in cash flows of the forecasted transactions."

This guidance appears to have been developed in the context of forward contracts and the FASB may wish to consider clarifying that the guidance can also be applied to option-based hedging strategies.

Measuring Financial Liabilities at Fair Value (Hybrid Instruments)

Under the Proposal, a debt instrument issued by an entity that contains an embedded feature which is not clearly and closely related to the host instrument (requires bifurcation) would be required to be recorded at fair value. The presence of the embedded feature would dictate the measurement attribute for the hybrid instrument (i.e. fair value through net income). We strongly urge the FASB to consider an exception for embedded features which are *de minimis* to the instrument as a whole as we do not believe that comparability or transparency is improved by having two similar instruments measured differently due solely to a *de minimis* embedded feature.

Thank you for the opportunity to provide comments on the Proposal. We would be pleased to discuss our views with you at your convenience.

Sincerely,

/s/ John Canan

John Canan
Senior Vice President, Contoller
Merck & Co., Inc.

cc: M. E. McDonough - Vice President and Treasurer