American Bankers Association
Building Success. Together.

Michael L. Gullette
Vice President – Accounting and Financial Management
202-663-4986
mgullette@aba.com

April 26, 2011

Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

File Reference No. 2011-175: Invitation to Comment: *Selected Issues about Hedge Accounting*

Dear Ms. Cosper:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Invitation to Comment: *Selected Issues about Hedge Accounting* (the Invitation). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $12.7 trillion in assets and employ over 2 million men and women.

ABA supports efforts to simplify accounting for hedging strategies and have submitted our comment letters to the original exposure drafts (EDs) related to hedge accounting issued by both the IASB (dated March 9, 2011) and FASB (dated August 31, 2010). In summary, the main concerns expressed in our letters were:

- Convergence is needed: We believe different standards related to hedge accounting will cause significant investor confusion, thereby disrupting the efficient functioning of capital markets.
- Portfolio level hedge accounting issues must be addressed: In order to capture and properly account for a large portion of hedging activities performed by financial institutions, the Boards must address portfolio level hedging activities. The IASB has indicated an intention to address this issue and we encourage both Boards to attend to it in an expedient manner.
- Lower thresholds of effectiveness of a hedging relationship are supported: FASB's proposal to require a "reasonably effective" hedging relationship, and IASB's elimination of the 80-125 percent "bright line", are appropriate steps in helping to reduce the burden of effectiveness testing.
- Practical expedients must continue: In order to make hedge accounting more accessible to medium-sized and smaller institutions, processes that reduce the burden of the ongoing analysis of the hedging relationship, such as the shortcut and critical terms matching methods, should be allowed.
- Dedesignation should be permitted: Companies should have flexibility in dedesignating hedge relationships, primarily because risk management strategies sometimes evolve.
- Cash flow hedge indices should be expanded: Allowable cash flow hedge indices should be expanded to include widely used rates such as the Federal Funds Rate and Prime Interest Rate.

In addition to the above points, significantly more implementation guidance is needed in addressing virtually all issues presented within the EDs, especially as they relate to defining a "reasonably effective" hedging relationship (within the FASB ED), interpreting the hedge ratio and hedge rebalancing requirements (within the IASB ED), and transition. The experience from the issuance of FASB Statement No. 133, with the required amount of Derivatives Implementation Group decisions, tells us that many important implementation questions will likely arise.

The fact that the majority of questions posed in the Invitation are related either to whether existing guidance is sufficient or to whether there are operational burdens related to specific proposals indicates that the Boards believe that additional guidance is, in fact, necessary. We encourage the Boards to perform more significant outreach to banking institutions of all sizes (including field testing) prior to issuing any final standard.

Thank you for your attention to these matters. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this.

Sincerely,

Michael L. Gullette