April 25, 2011

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-175, Discussion Paper Invitation to Comment: Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting)

Dear Ms. Cosper:

Verizon Communications Inc. (Verizon) appreciates the opportunity to comment on the FASB’s Discussion Paper which seeks comments on the IASB Exposure Draft (ED), Hedge Accounting. Verizon is one of the world’s leading providers of communication services and is a registrant with the SEC.

Over the past year, Verizon has been an active and supportive participant in the FASB and IASB’s (the Boards’) initiatives to issue converged principles based accounting guidance. Verizon has actively participated in comment letter submissions and in outreach activities such as the Boards’ roundtables and meetings with the Boards’ project managers. We have a significant interest in the potential impacts that the proposed accounting guidance set forth in the joint projects could have upon the communications industry.

In our prior comment letter on Financial Instruments we urged the Boards to work together to develop a converged and simplified hedge accounting model. We continue to encourage the Boards to work towards convergence in the area of hedge accounting. We support the direction of the IASB’s model as proposed in its recent ED and believe that it should be utilized as the starting point for a converged standard. Some comments and concerns that we have are discussed below.

Risk Management
Paragraph IN12 of the IASB’s ED, “... proposes that the objective of hedge accounting is to represent in the financial statements the effect of an entity’s risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss.” Accordingly, the IASB’s proposed model seeks to provide a link between an entity’s risk
management strategy, the rationale for hedging and the impact of hedging on the financial statements. We generally support this approach.

Verizon believes that further clarification is needed in order to make this concept operational given that under current standards, there is no stated requirement for hedge accounting to be consistent with an entity's risk management strategy. For example, it is common for entities to enter into derivative instruments without designating them in a hedging relationship. Additionally, certain risk management strategies, such as the hedging of a foreign currency subsidiary's net income, do not qualify for hedge accounting under today's guidance or under the proposed guidance. A commonly used alternative is the use of a net investment hedge. As such, the risk management strategy differs from the entity's objective for using hedge accounting. We believe that further clarification and articulation is needed regarding the concept of linkage and where differences between the entity's risk management strategy and hedge accounting are acceptable. Moreover, risk management policies are generally documented in a broader context than is typically applied to transactional hedging and therefore such policies typically are designed to set general risk limits, the types of hedging instruments an entity is permitted to use, and the general manner in which an entity is permitted to hedge. Therefore, Verizon also believes that clarification is needed regarding the level of detail that would be required in documenting an entity's risk management objectives.

Effectiveness Assessment
Verizon supports the IASB's proposed elimination of the bright line "highly effective" threshold as the qualifying criteria for hedge accounting. However, we do not support the IASB's proposal that the hedging relationship should result in "other than accidental offsetting" and produce an "unbiased" result that minimizes ineffectiveness. Verizon believes that the terms "other than accidental offsetting" and "unbiased" would lead to varying interpretations and inconsistencies in application.

We strongly encourage the Boards to consider the FASB's proposal that the hedging relationship must be "reasonably effective". We believe that "reasonably effective" is easier to understand and would provide more flexibility depending on the level of exposure to ineffectiveness that an entity is willing to accept.

We support the IASB's proposals to require effectiveness testing on a prospective basis only and to assess effectiveness qualitatively when appropriate. We also recommend that, in addition to cash flow hedges, the Boards permit the use of a hypothetical derivative to assess effectiveness and measure ineffectiveness for fair value hedges.

Rebalancing
We are concerned that the IASB's rebalancing proposal could be interpreted, when considered in conjunction with the concept of 'no bias', to require an optimal hedge ratio at all times. Verizon is concerned that this concept could require continuous adjustments to hedged items or hedging instruments based on small changes in hedge effectiveness. We believe that the concept of rebalancing needs further clarification.
Dedesignation
The application of hedge accounting is a voluntary election by a company assuming the requirements for hedge accounting are met. If the application of hedge accounting is voluntary, we believe that entities should have the ability to dedesignate. Verizon recommends that the Boards require disclosure when a company voluntarily dedesignates a hedging relationship.

Other issues
We agree with the IASB’s proposals that would permit the hedging of risk components of non-financial items; aggregated exposures and groups of items, including net positions; layer components of a nominal amount; and derivatives as hedged items. We urge the Boards to adopt these proposals.

Disclosure
Verizon believes that the proposed disclosures are overly extensive and would be of limited value to most users of our financial statements. We are also concerned that the proposal requires disclosure of forecasted information that we do not believe should be presented within audited financial statements.

Thank you for the opportunity to comment. We would be pleased to discuss our comments in more detail with members of the Board or staff.

Respectfully submitted,

Michael W. Morrell
Vice President – Finance