Northern Trust Corporation 50 South LaSalle Street Chicago, Illinois 60675 (312) 630-6000





August 15, 2008

Via email

Technical Director – File Reference No. 1590-100 Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk

, CT 06856-5116 Norwalk

Re: File Reference No. 1590-100

Dear Sir:

We are pleased to have this opportunity to comment on the proposed Financial Accounting Standards Board (FASB or Board) amendment of FASB Statement No. 133 (FAS 133).

Northern Trust Corporation (Northern Trust) is a NASDAQ-listed financial holding company headquartered in Chicago, Illinois, with consolidated assets of approximately \$75 billion as of June 30, 2008. Northern Trust conducts business in the United States (U.S.) and internationally through its banking subsidiaries, trust companies and various other domestic and foreign nonbank subsidiaries.

Northern Trust supports the efforts of the FASB to simplify accounting for hedging activities, resolve certain practice issues, and improve the clarity and usefulness of financial statements. In that regard, we support a majority of the proposed amendments to FAS 133, as we believe they accomplish these objectives. However, we do not support the Board's proposal to eliminate the ability of an entity to designate an individual risk as the hedged risk in a fair value or cash flow hedge. We believe this change introduces a new level of complexity to certain hedging strategies, increases the administrative burden of hedge accounting, and most importantly, provides less meaningful information to financial statement users. We have elaborated on these concerns and provided responses to certain of the FASB's additional requests for comment below.

1. In response to Issue 1, we believe that eliminating an entity's ability to designate an individual risk as the hedged risk will introduce an unwarranted level of complexity and would produce accounting results that are inconsistent with an entity's risk management strategies.

Entities typically enter into derivative contracts to manage a <u>discrete</u> risk (such as interest rate risk), but not all risks of a hedged item. The proposed statement requires that a derivative designated as a hedge be expected to reasonably offset <u>all</u> changes in fair value of the hedged item in order to qualify for hedge accounting. As a result, some of the most common and

simplistic interest rate hedging strategies in practice today may be disqualified. To avoid disqualification, entities would be forced to either acquire multiple derivatives to hedge risks that were not part of their original hedging goal, or demonstrate the hedge will be reasonably effective with one derivative and accept greater earnings volatility resulting from changes in the value of the hedged item relating to unhedged risks. If the later were chosen, the financial statements would reflect changes in fair value of the hedged item having nothing to do with the hedging strategy, but would not reflect such fair value changes for similar unhedged items. We believe both options to be overly complex and inconsistent with an entity's original goal of managing a discrete risk. We are concerned that adding this unwarranted complexity to some of the most common hedging strategies will result in less meaningful accounting results that are unrepresentative of the originally intended risk management strategies. Accordingly, Northern Trust does not believe the proposed change is reasonable or operational in practice, and we strongly recommend that the FASB not eliminate the ability to designate individual risks inherent in a hedged item or transaction.

Additionally, although the proposed change is directionally consistent with the Board's goal of measuring all financial instruments at fair value, the application of fair value in a piecemeal manner, for hedged items only, introduces a lack of comparability to unhedged items.

2. In response to Issue 2, we believe that if the Board ultimately decides to limit the hedging of individual risk, the Board should continue to permit an entity to designate an individual risk as the hedged risk for the two exceptions identified in the proposed statement.

As discussed in our response to Issue 1, Northern Trust opposes the Board's decision to eliminate the ability of an entity to designate an individual risk as the hedged risk in a fair value or cash flow hedge. However, if the Board continues to support a general disallowance of hedging of individual risks, we support an exception for hedges of foreign currency exchange risk and interest rate risk for an entity's own debt.

3. In response to Issue 3, we believe that the elimination of the shortcut method and critical terms matching will require additional operational costs with no appreciable improvement in the usefulness of financial statements.

The proposed statement would require entities that currently apply shortcut and critical terms matching to begin using a "long-haul" approach to measure the ineffectiveness of hedges that, by definition, are extremely effective. To implement this approach, entities would be required to expend additional resources to measure and record insignificant amounts of ineffectiveness through earnings. As noted by the Board in Issue 11, the benefits of providing information in financial statements should justify the related costs. We do not believe the elimination of the shortcut method and critical terms matching accomplishes this objective. We also do not believe that replacing simplified hedge effectiveness assessment techniques with more onerous techniques achieves the Board's objective of simplifying hedge accounting.

4. In response to Issue 4, we support the modification of the effectiveness threshold necessary for applying hedge accounting from "highly effective" to "reasonably effective."

Northern Trust supports this proposed amendment and the proposed change to require entities to perform effectiveness evaluations after the inception of a hedge only if circumstances suggest the hedging relationship will no longer be reasonably effective. We believe that together these changes will appropriately increase management's ability to apply reasonable judgment when analyzing hedge effectiveness. The current practice of applying strict quantitative criteria often

results in a need to discontinue hedge accounting even though a sound qualitative analysis demonstrates the hedge continues to be reasonably effective. For these reasons, Northern Trust agrees with the proposed changes and believes they will lead to greater consistency in the financial reporting of hedge results.

5. In response to Issue 7, we do not believe FAS 133 should be amended to prescribe the presentation within the financial statements of gains and losses associated with hedging instruments.

Northern Trust believes that current disclosure guidance, in combination with the requirements of FASB Statement 161, provide sufficient information regarding derivative gains and losses and additional presentation requirements are not necessary.

We appreciate the opportunity to comment on the proposed statement. If you have any questions, please contact me at (312) 444-2292 or Richard Kukla, at (312) 444-7408.

Sincerely,

/s/ Steven L. Fradkin

Steven L. Fradkin
Executive Vice President and
Chief Financial Officer