

BOSTON PRIVATE BANK
& TRUST COMPANY



August 7, 2008

LETTER OF COMMENT NO. 9

Mr. Russell Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 1590-100, Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133*

Dear Mr. Golden:

Boston Private Bank & Trust Company appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Exposure Draft of Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (the "Exposure Draft"). Boston Private is a \$2.9 billion bank that actively uses interest rate derivatives to hedge exposure to interest rate risk.

Although we support the FASB's desire to simplify the accounting for hedging activities, resolve certain practice issues, and improve the financial reporting of hedging activities for users of financial statements, we do not believe that the Exposure Draft as currently drafted meets those objectives. Rather, we are concerned that certain of the proposed amendments will result in significantly increased complexity, increased costs, and less reliable and meaningful financial reporting.

Most significantly, we disagree with the decision to prohibit (except in the very limited circumstances provided for in the Exposure Draft) an entity from hedging individual risks. Our company is very concerned that we will be unable to qualify for hedge accounting-- even using a "reasonably effective" standard--for many of our most common and straightforward hedging strategies, including hedges of fixed-rate assets and hedges of pools of assets or liabilities. Even in situations in which we do qualify under the new model, we believe the associated earnings volatility often will be extreme and largely misleading. As a result, we are troubled that the proposed hedging model appears to be very inconsistent with how we manage our risks and will be unrepresentative of the effectiveness of our risk management activities.

For example, we actively manage our interest rate risk and enter into derivative instruments that are extremely effective at managing that risk. However, those derivatives do not hedge credit risk and are not designed to hedge credit risk. Our company is not

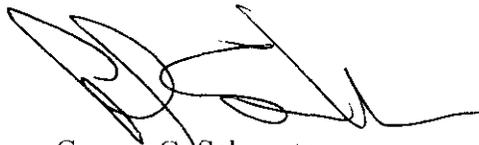
trying to hedge our own credit risk, and we are not interested in hedging that risk for many of the same reasons noted in the Alternative Views section of the Exposure Draft. In particular, we have serious concerns about the legal implications and potential accusations regarding self-dealing, concerns about the message that hedging one's own credit risk signals to the marketplace, and concerns about the potentially very significant transaction costs if we could find a willing counterparty. Accordingly, we do not believe the proposed model is reasonable or operational in practice, and we strongly advocate that the FASB retain a "bifurcation-by-risk" approach to hedge accounting.

A related concern is that the new hedge accounting model is heavily based on unobservable and unreliable inputs. For many companies, including ours, reliable and up-to-date credit data is not readily available. In addition, for hedges of forecasted debt issuances, we have almost no information about the market supply and demand that will exist at the date we expect to issue our debt. We are concerned, therefore, about the complexities of trying to model theoretical transactions in theoretical markets. It is certainly not a simplification relative to the current bifurcation-by-risk model.

Finally, with the increased emphasis on converging with international standards, we do not believe that a significant change to the hedging model, especially one that diverges from the current international model, is justified at this time. We are concerned about changing the hedge accounting model now in the U.S. only to have to change again in the near future. Making significant changes to our systems, approaches, documentation, etc., as would be required by the proposed amendment, is very costly and usually underestimated. From our perspective, it seems that most of the practice issues and differences in interpretation surrounding hedge accounting have been resolved over the past several years, and we believe such a significant amendment to the hedge accounting model will only create a flood of new implementation questions and interpretation risk. Thus, we would strongly recommend either (1) retaining a bifurcation-by-risk approach to hedge accounting or (2) dropping the current project and pursuing a joint plan to work with the International Accounting Standards Board to develop a hedging model that will eventually apply under both U.S. GAAP and IFRS.

We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "George G. Schwartz", written in a cursive style.

George G. Schwartz
COO, Treasurer
Boston Private Bank & Trust Company