

United Technologies Corporation
United Technologies Building
Hartford, CT 06101
(860) 728-7000



* 1 5 9 0 - 1 0 0 *

August 15, 2008

LETTER OF COMMENT NO. 92

Submitted via email (to director@fasb.org) and ordinary mail

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

Reference: File Reference No. 1590-100

United Technologies Corporation (UTC) welcomes the opportunity to share its views on the proposed statement “*Accounting for Hedging Activities an amendment of FASB Statement No. 133*” (the ED). UTC is a \$60 billion global provider of high technology products and services to the building systems and aerospace industries, operating in 186 countries around the world.

As a part of our risk management strategy, we have used derivative instruments, including swaps and forward contracts, to manage certain interest rate, foreign currency and commodity price exposures. Specifically, we enter into forward contracts to hedge foreign currency risk; interest rate swaps to swap fixed rates for variable rates, which help us manage our interest costs and hedge risks associated with changes in interest rates on our debt obligations; and short term treasury locks to lock in benchmark interest rates when we issue debt.

We support the Board’s effort to simplify the accounting for hedging activities, resolve certain practice issues, and improve the financial reporting of hedging activities for the users of financial statements, however, we do not believe that the ED necessarily meets all of those objectives. While we support the Board’s effort, we are concerned that certain of the proposed amendments will create increased complexity and costs, and likely result in accounting for hedges in a way that does not match our risk management strategy, which we don’t consider useful to users of financial statements.

We agree with the revision of the timing of required effectiveness documentation. We are concerned, however, with the elimination of the shortcut method and critical terms match method of assessing effectiveness. Although it appears that the FASB is loosening the requirements with respect to assessing effectiveness by only requiring it at inception,

there is a requirement in the ED to measure ineffectiveness. The long-haul method of assessing any ineffectiveness of an interest rate swap is extremely complex and will require costly models to be developed by professionals to appropriately comply with the requirements. We do not believe this will improve the quality of financial reporting – rather it will only make it more complex and costly for issuers. We also believe that the elimination of the shortcut method will have such a burdensome effect on companies that it will far outweigh the benefit of the elimination of the quarterly effectiveness testing requirement.

We are deeply concerned with the decision to prohibit an entity from hedging individual risks (beyond the two exceptions). Interest rate swaps are a very common, straightforward and effective hedging strategy that many companies employ as a means of offsetting interest rate risk. Yet under the ED, to apply hedge accounting to an interest rate swap, a Company will be required to assess overall risk in the fair value assessment of the hedged item, including credit risk, a risk that currently cannot be hedged, and one that many Companies would not intend to hedge. This could cause volatility in the income statement related to credit risk when the derivative was not intended to hedge credit risk. This represents a significant difference between accounting for the derivative and the underlying risk management strategy in place, which appears to us to be a confusing message to the users of financial statements. Further, as stated in the *Alternative View* section of the ED, derivatives are generally designed to manage discrete risks, not all risks.

Additionally, we do not understand the difference, from a risk management perspective, between designating a hedge at inception and a “late hedge” as described in the ED. For an entity to comply with the ED requirements of hedging individual risk, an interest rate swap must be entered into at inception of the debt issuance. This is not practical or consistent with our risk management strategy for entering into an interest rate swap. For example, from time to time, we enter into interest rate swaps on our own fixed-rate debt, several years after issuance of the debt. This is usually in response to changes in the interest rate market. Under the ED, this very common strategy would not meet the bifurcation-by-risk hedge accounting as the hedge was not designated at inception. This would require us to assess our own credit risk on the hedged item, as previously discussed.

Finally, with the certainty of convergence with international standards, we believe that the FASB and International Accounting Standards Board (IASB) should pursue issuing a converged joint standard. Making significant changes to the US GAAP model under FAS 133 before issuing a converged standard is an inefficient use of issuer’s time and resources.

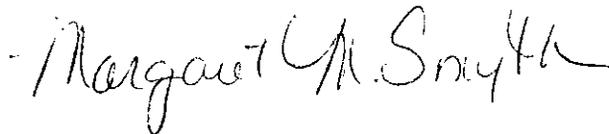
In summary, we recommend that the Board:

1. Continue to allow hedge accounting utilizing a bifurcation-by-risk approach, and
2. Continue to allow the application of the short-cut method in assessing effectiveness of an interest rate swap. Alternatively,

3. Defer issuing a new standard and continue to pursue a joint standard with the IASB that will eventually be applied under both US GAAP and IFRS.

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

Sincerely,

A handwritten signature in black ink that reads "Margaret M. Smyth". The signature is written in a cursive style with a large, sweeping initial "M".

Margaret M. Smyth
Vice President, Controller
United Technologies Corporation