



Ford Motor Company

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August 15, 2008

Russell G. Golden, Director  
Technical Application & Implementation Activities  
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LETTER OF COMMENT NO. 93

VIA EMAIL: [director@fasb.org](mailto:director@fasb.org)

File Reference No. 1590-100

Dear Mr. Golden,

We appreciate the opportunity to comment on the Financial Accounting Standard Board's (FASB or the Board) Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (Exposure Draft).

Although we support the FASB's objectives to simplify accounting for hedging activities, resolve major practice issues, and improve the financial reporting of hedging activities for users of financial statements, we do not believe that the Exposure Draft in its current form achieves those objectives and will create new practice issues for Companies attempting to apply hedge accounting.

The proposed guidance appears to be inconsistent with the intentions of the FASB when it renewed its Memorandum of Understanding with the International Accounting Standards Board regarding the convergence of U.S. GAAP and IFRS and moving toward a single set of global accounting standards. The Exposure Draft diverges from IAS 39, encumbering such efforts. Furthermore, the efforts of complying with the proposed guidance would be costly and largely inefficient as a subsequent conversion towards international standards may render them invalid.

We recommend that guidance on hedge accounting be pursued in the framework of a joint effort with IASB, such as *the Business Combinations: A Replacement of FASB Statement No. 141* [SFAS 141(R)], and the *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* [SFAS 160] projects.

The proposed guidance for permissible de-designation is unnecessarily restrictive and appears to presume companies de-designate to manipulate earnings rather than to prudently manage economic risk. Companies with a global presence often manage risk on an enterprise basis. SFAS 133 requires the application of hedge accounting on a transaction-by-transaction basis. Ordinary changes in the business will cause changes in the risk profile of the underlying hedged exposure thereby creating a need to remove, add, or change existing hedging relationships. For a company that wishes to both properly

manage the economic risk and apply hedge accounting, the proposed guidance will cause significant and unnecessary expenses to transact an off-setting derivative and at the same time enter into a new derivative arrangement. Companies will incur not only additional transaction costs, but will also use up credit capacity with their counterparties even when an existing derivative instrument previously de-designated would meet the threshold of being a highly effective hedge of another qualifying relationship.

We recommend that the FASB address any specific abuses they perceive exist rather than simply prohibiting a prudent decision to de-designate. We also recommend that re-designation is allowed where the derivative instrument is an effective hedge.

Although the Exposure Draft does not explicitly prohibit the use of a central treasury function, the proposed amendments to SFAS 133, ¶40 render the function a useless solution for managing foreign exchange risk for non-banking companies having a global presence. In addition to the incremental cost, there are practical and operational repercussions that will result.

1. Today, the entity serving as the central treasury function is party to hundreds of ISDA master agreements. In order to hedge the true economic foreign exchange exposure and meet the requirements for hedge accounting under the proposed guidance, each affiliate will need to enter into separate ISDA master agreements. Assuming counterparties would even agree to enter into ISDAs with the affiliates, the associated legal and tax implications become very complex.
2. Today, much of the required documentation, testing and measurement required by SFAS 133 are performed centrally. In order to comply with the proposed guidance, each foreign affiliate will need to develop an expertise for treasury operations and trading as well as an expertise in a very specialized standard for U.S. GAAP. For a non-banking entity, this required expertise is non-core to their business operations, is incremental to the expertise required for their statutory financial reporting requirements, and is contrary to how many global registrants have structured their supporting staff functions.
3. Today, many of the financial reporting and operating controls associated with treasury operations and SFAS 133 accounting exist in the central treasury function. An entity choosing to meet the requirements of the proposed guidance will have to incur additional costs to increase controls in each affiliate location in order to properly execute trading activities at the affiliate's level and comply with SFAS 133 requirements.

We recommend that the FASB retain the concept of the central treasury function for purposes of managing foreign currency exposure.

We do not believe the guidance provided in the Exposure Draft meets the objective of simplification and increased transparency. It will add increased complexity for a Company that wants to apply hedge accounting, even for the most simple and common hedging relationships. Furthermore, it will result in significant system changes, a re-deployment of professional resources, and incremental transaction costs. It is also likely the required changes in operational trading will result in a negative impact on corporate liquidity.

We appreciate the Staff's consideration of these matters and welcome the opportunity to discuss these items.

Sincerely,



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