



August 14, 2008

LETTER OF COMMENT NO. 23

Mr. Russell Golden
Technical Director
File Reference No. 1590-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

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

Dear Mr. Golden,

UnionBanCal Corporation appreciates the opportunity to comment on the June 6, 2008 Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (Exposure Draft). UnionBanCal Corporation is a bank holding company with commercial and consumer banking activities headquartered in San Francisco, California. We enter into derivative instruments for risk management purposes and on behalf of our customers.

UnionBanCal Corporation supports FASB's efforts to simplify the accounting for hedging activities and to resolve practice issues that have arisen under *SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities*. However, we have the following comments to certain of the issues raised in the "Notice for Recipients" in the Exposure Draft for your consideration.

Issue 1: Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of the risks inherent in the hedged item or transaction?

We disagree with the FASB's proposal to eliminate the ability of an entity to designate individual risks as the hedged risk. The majority of our derivatives are designed to manage interest rate risks. The removal of the ability to hedge the benchmark interest rate would change the structure of our hedging strategy and introduce earnings volatility from incorporating unhedged credit risk. Because we enter into derivatives to manage interest rate risk and do not hedge credit risk, we believe the proposed model is inconsistent with how we manage our risk and will not represent the effectiveness of our risk management activities. Further, the overall fair value determination of the hedged item would likely introduce valuation issues related to the market

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value of credit and the use of unobservable inputs to determine fair value.

Issue 3b: Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the shortcut method and critical terms matching, which eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?

We believe the shortcut method should continue to be available. Our bank issued debt has been hedged using this method and our systems have been customized to reflect the short cut accounting treatment allowed under SFAS No. 133. Transitioning to the long haul method will complicate the accounting for simple interest rate hedge transactions and require costly operational changes. At a minimum, we strongly believe that existing contracts currently qualifying for use of the short cut method should be grandfathered into any new guidance.

Issue 11: Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement? If not, what additional benefits or costs should the Board consider?

We believe there would be significant costs and efforts to implement a revised hedging model to meet the requirements under the Exposure Draft. In addition to a modification of existing systems, processes and internal control polices and procedures, we would need to re-evaluate our current hedging strategies. Further, with the FASB's commitment to the convergence of U.S. generally accepted accounting principles with International Financial Reporting Standards (IFRS), the implementation of accounting guidance which diverges from current IFRS seems untimely.

We appreciate your consideration of these comments. Should you have any questions or like to further discuss these comments in more detail, please contact me at (415) 765.2910 or Patricia Dilworth-Bue at (415) 765.3192.

Sincerely,

Elizabeth M. Pesch
Senior Vice President and Manager
Accounting Policy and Financial Reporting