1810-100 Comment Letter No. 1545

October 3, 2010

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

File Reference No.1810-100, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Sir or Madam:

Thank you for the opportunity to comment on the proposed accounting changes declared in the exposure draft referenced above. As an investor and as a corporate accountant, I do support the board's effort to simplify accounting for hedging; however, I feel the majority of the proposed changes surrounding derivatives will add further complexity in practical application.

I support the proposal to lower hedge effectiveness criteria from "highly effective" to "reasonably effective". My only concern with this proposal is how to clearly identify what is "reasonably effective". The variation in interpretation of this term among entities may not provide for comparable results. I would like to see the board provide guidance as to when a quantitative assessment may be necessary and when a reassessment may be necessary after hedge inception. The draft does not clearly define what constitutes as a valid 'qualitative' assessment at hedge inception, and as an accountant I would like to know whether hedge relationships will be able to withstand regulatory challenge if need be.

I do not agree with the proposal to measure hedge ineffectiveness related to 'underhedging'. While I do understand the need for amounts to be reclassed out of OCI that are in excess of the underlying hedged transaction; I do not understand the reasoning behind reclassing amounts out of OCI that are non-existent. For example, if you were to hedge the forecasted purchase of a commodity in which the purchase orders of the underlying commodity are of greater quantity than the quantity of a futures contract – why would the entity have to record this impact to earnings? The entity never realizes any gain or loss on this difference in reality. The concept of ineffectiveness is to protect investors from an entity abusing hedge accounting treatment above and beyond the needs of the company. If an entity happens to have a less than perfect derivative, the impact of this will be reflected in earnings as the full hedge offset will not be realized. I would think underhedging is common in a great deal of hedge relationships due to the fact that derivative contract quantities are not always exactly the quantities that the underlying commodity is purchased in.

I also do not agree with the proposal to discontinue an entity's ability to dedesignate a hedging relationship. Entities with multiple hedge strategies might perform a daily or weekly designation process where current derivatives are aligned with current basis contracts. This allows the entity to keep sufficient specificity between the derivative and the underlying forecasted transaction. Any production changes to the forecasts of the hedge strategies may prompt dedesignation and redesignation of hedges so that the derivative to underlying matching/alignment is precise each and every day. If entities could not dedesignate and redesignate, they might be forced to enter into an offsetting derivative so that the hedged derivative could be terminated, therefore allowing a dedesignation. If entities began executing offsetting derivatives, the consequence of this proposal would not help the accounting for hedging, but merely complicate the process for both accountant and trader. The board has not presented adequate support surrounding their reasoning for this change or how the benefits would outweigh the costs.

In conclusion, I do not feel the proposed changes surrounding derivative activities as they are written today, simplify or make hedge accounting less administratively burdensome. With the exception of lowering the effectiveness criteria to "reasonably effective", I do not see the intended benefit of discontinuing voluntary dedesignation or subjecting underperforming derivatives to a calculation of

• Page 2 October 3, 2010

ineffectiveness. As an investor and an accountant, thank you for taking into consideration my recommendations on these areas of the exposure draft.

Sincerely,

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