1810-100 Comment Letter No. 1642



VIA E-MAIL

September 30, 2010

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

Re: File Reference No. 1 810-100, Proposed Accounting Standards Update, Accounting for

Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging

Activities

Dear Sir:

Carnival Corporation & plc ("Carnival") appreciates the opportunity to comment to the Financial Accounting Standards Board (the "FASB") regarding the Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (the "Proposed Revision"). We generally support the FASB's objectives to revise and improve the financial reporting for financial instruments and hedging activities and simplify the accounting for hedging activities. Based on the content of certain items included in the Proposed Revision it also seems to aim to conform to International Accounting Standard 39 - Financial Instruments: Recognition and Measurement, as amended ("IAS 39"). However, we believe the following issues are left unresolved by the revised language in the Proposed Revision and, accordingly, we express our concerns prior to the release of a final standard as follows:

- Voluntary De-designation Like many other large multinational companies, Carnival is in a position to often offset multiple pre-existing risks resulting from the ongoing business activities of our subsidiaries on an enterprise-wide basis. When circumstances change, we are able to rebalance our risks through offsetting economic risks and through designation and de-designation of hedging relationships. If we are not able to de-designate certain hedging relationships we would be required to enter into transactions with external counterparties, which would result in the incurrence of additional transaction costs. In addition, there have been instances in which we have entered into economic hedges by way of de-designating all or a portion of an existing nonderivative hedging relationship in order to offset the remeasurement of a foreign currency denominated asset or liability that otherwise would not be eligible for hedge accounting treatment. Therefore, if the Proposed Revision were adopted, it would restrict our ability to internally manage our foreign currency exposures. We believe that preventing preparers from dedesignating would have cost consequences and restrict preparers' ability to manage their risks.
- Shortcut & Critical Terms Match The Proposed Revision would eliminate the shortcut method and critical terms match method. The FASB's reasoning for this change is that it would no longer require preparers to meet the strict criteria prescribed in existing guidance. An additional reason

for this change is that it will conform this area of hedge accounting to IAS 39. We believe that existing U.S. GAAP is less onerous than the Proposed Revision and IAS 39. The measurement of hedge ineffectiveness is costly and burdensome to preparers because it requires that sophisticated models be maintained by highly-skilled professionals. We believe the existing U.S. GAAP enables a preparer to take a substance over form approach in hedge accounting areas. We propose that the FASB take a two-step approach to address their concerns here. For Step 1, preparers should confirm at each reporting period that critical terms have matched, and are expected to continue to match, from a qualitative perspective. If, for any reason, critical terms did not match, a preparer should then be required to go to Step 2, which would require a preparer to prove that the measurement impact of not having the critical terms match is insignificant. For example if the difference in forward points between the hedging instrument and a number of expected hypothetical derivative constructions will result in little or no ineffectiveness, as demonstrated by the preparers effectiveness test, then the preparer would have proven that the derivative is effectively a perfect hedge, and that there is no real ineffectiveness to be measured. If the preparer fails to prove this then they would be required to measure hedge ineffectiveness using the long-haul method. Under IAS 39, the mandatory practice of requiring preparers to perform effectiveness tests has resulted in all IFRS preparers performing hedge accounting under the long-haul method, however, this long-haul method has not typically resulted in significant ineffectiveness being measured in cases where critical terms are met nevertheless it has added to the cost of compliance.

• <u>Intercompany Transactions</u> – Because of the issue dealt with in the 2008 exposure draft – Accounting for Hedging Activities – an amendment of FASB Statement No. 133 with regard to intercompany hedges (Reference Number 1590-100), and the fact that there has been no clarification of this issue since then, we believe that it was appropriate to provide comments on this subject in connection with the Proposed Revision. Our review of the existing guidance and discussion with other hedge accounting experts has led us to believe that this area of accounting is being interpreted in a variety of ways. Should the FASB decide to make any amendments to the current accounting in this area, because of the time that has elapsed since the 2008 proposal, we recommend that such amendments be exposed for comment.

We appreciate the FASB's consideration of these matters and welcome the opportunity to discuss any questions you may have at your convenience you may contact Larry Freedman at 305-406-5955 or me at 305-406-5999.

Sincerely,

Stephen Hodes Director, Corporate Finance

David Bernstein, Senior Vice President and Chief Financial Officer
Larry Freedman, Chief Accounting Officer and Vice President – Controller
Joshua Weinstein, Vice President and Treasurer
Mark Novell, Vice President and Assistant Controller

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