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August 15, 2008

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



LETTER OF COMMENT NO. 60

RE: Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133

File Reference No. 1590-100

Dear Mr. Golden:

We are pleased to comment on the proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133.

We strongly oppose the issuance of this Statement in its current form for the reasons set forth below. However, as requested in response to the major issues, we have also provided comments in an attachment to this letter.

One of the main objectives of this Statement is to "simplify accounting for hedging activities." In our experience with middle market companies, the major practice issues with hedge accounting are the strict initial documentation requirements at the inception of the hedge and the definition of a derivative. This proposed Statement does not address either of these issues. Therefore, any amendments to simplify hedge accounting that does not address these two issues will not simplify practice in a meaningful way.

The proposed Statement requires that, with certain exceptions, an entity assess effectiveness based on all risks present in the transaction in order to apply hedge accounting. This requirement implies that the only valid hedging strategy must be based on the ability to hedge all risks. We disagree with this implication. Entities routinely identify discrete risks encountered and then decide which risks to hedge based on their relative risk and the cost to implement an effective hedge. Rarely can multiple derivative financial instruments (let alone a single derivative financial instrument) be obtained that will hedge all risks. As such, to prohibit hedge accounting for discrete risks would result in the true economics of transactions not being faithfully represented in the financial statements.

We disagree that the benefits of this proposed Statement will outweigh the costs. Entities have invested significant resources to ensure that their hedge strategy and documentation meet the current requirements. The requirements of a de-designation and re-designation for all strategies, with certain exceptions, would result in significant additional resources being expended to meet the proposed requirements. As we believe the proposed Statement does not achieve its objectives, any additional costs expended are too much.

We would be pleased to respond to questions the Board or its staff may have about any of the foregoing comments. Please direct any questions to Jay D. Hanson (952-921-7785) or Jolene M. Hart (952-921-7735).

Sincerely,

McGladrey & Pullen, LLP

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McGladrey & Pullen

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Re: File Reference No. 1590-100

Below are McGladrey & Pullen's comments regarding the Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No.* 133.

Hedged Risk

Issue 1: For the reasons stated in paragraph A16 of this proposed Statement, the Board decided to eliminate (with two exceptions) the ability of an entity to designate individual risks as the hedged risk in a fair value or cash flow hedge. As a result of that change, the financial statements would reflect information about the risks in the hedged item or transaction that an entity both chooses to manage and not to manage as part of a particular hedging relationship.

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?

For the reasons set forth in our comment letter, we do not support this model.

Issue 2: For the reasons stated in paragraphs A18–A20, the Board decided to continue to permit an entity the ability to designate the following individual risks as the hedged risk in a fair value or cash flow hedge: (a) interest rate risk related to its own issued debt (that is, its liability for funds borrowed), if hedged at inception, and (b) foreign currency exchange risk. For those two exceptions, the financial statements would not reflect information about the risks that an entity chooses not to manage as part of a particular hedging relationship.

Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?

We believe the Board should continue to permit entities to designate individual risks in any hedging relationship, without limitation.

Hedge Effectiveness

Issue 3: This proposed Statement would eliminate the shortcut method and critical terms matching. Therefore, an entity would no longer have the ability upon compliance with strict criteria to assume a hedging relationship is highly effective and recognize no ineffectiveness in earnings during the term of the hedge. As a result, when accounting for the hedging relationship, an entity would be required, in all cases, to independently determine the changes in fair value of the hedged item for fair value hedges and the present value of the cumulative change in expected future cash flows on the hedged transaction.

Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships?

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 would eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?

We do not understand how the elimination of the shortcut method and critical terms matching would improve the usefulness of financial statements. If transactions meet the strict criteria of these two methods, we fail to understand

why ineffectiveness would ever be recognized. The elimination of such methods would create an unnecessary burden to determine and document a new methodology for testing effectiveness under the proposed Statement that would not result in better information for the users of the financial statements.

Issue 4: This proposed Statement would modify the effectiveness threshold necessary for applying hedge accounting from highly effective to reasonably effective at offsetting changes in fair value or variability in cash flows. Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

We understand the Board has proposed modifying the effectiveness threshold from highly effective to reasonably effective due to the change in the requirement to assess effectiveness based on the change in all risks versus the bifurcation of risks. As stated before, we object to this change. Both highly effective and reasonably effective are principle-based thresholds. Under current practice "highly effective" has evolved into an unstated but well-known rule that when the effectiveness assessment result is between 80% - 125%, the hedge is considered highly effective. We believe that practice would develop a similar rule (albeit with a broader range) to define "reasonably effective".

For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under this proposed Statement (except for an entity's own issued debt at inception), do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk?

We have had a significant number of clients whose current hedging strategy, specifically their strategy of hedging interest rate risk after the inception of the related debt, would no longer be permitted under the proposed Statement.

Issue 5: This proposed Statement always would require an effectiveness evaluation at inception of the hedging relationship. After inception of the hedging relationship, an effectiveness evaluation would be required if circumstances suggest that the hedging relationship may no longer be reasonably effective.

Do you foresee any significant operational concerns in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness each reporting period?

Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? If so, why?

We believe more explanation regarding when hedge effectiveness reassessment is necessary. We recommend the Board provide examples of indicators to assist in the determination.

Issue 6: The Board considered but decided against eliminating any assessment of effectiveness after the inception of the hedging relationship. The Board believes that eliminating such an assessment of effectiveness could result in the continuation of hedge accounting even when situations suggest that the hedge relationship may no longer be reasonably effective. Some observe that an implication of the decision to not eliminate any assessment after the inception of the hedging relationship could be that hedge accounting results would be reflected in some reporting periods and not in other reporting periods throughout the life of the relationship. Also, in a hedge accounting model that generally does not permit hedging of individual risks, changes in the relationship between the individual risks being managed and those not being managed could increase the likelihood that the hedging relationship would no longer be reasonably effective. That would result in hedge accounting no longer being permitted for a portion of an expected hedge term. That "in and out" of hedge accounting would make it more difficult for users to interpret financial statements.

Do you agree with the Board's decision to continue to require that hedge accounting be discontinued if a hedge becomes ineffective? Alternatively, should an effectiveness evaluation not be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term?

We agree with the Board that hedge accounting should be discontinued if it is no longer effective. We believe that it is reasonable to require an effectiveness evaluation after the inception of a hedging relationship to determine if the hedging relationship is performing as expected. However, as indicated above, we believe the Board should provide criteria to use in determining when a reassessment would be necessary.

Presentation of Hedging Gains and Losses

Issue 7: In the statement of operations, Statement 133 does not prescribe the presentation of gains and losses associated with hedging instruments, including the effective portion, the ineffective portion, and any amounts excluded from the evaluation of effectiveness, such as forward points. Some have suggested that such a prescription would improve financial reporting by creating consistency in the presentation of these amounts across all entities. Others observe that FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, requires disclosure about that information, and they question whether a prescriptive approach is appropriate given the diverse hedge accounting strategies employed by entities.

Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts? For example, the Statement could require that the effective portion of derivatives hedging the interest rate risk in issued debt be classified within interest expense and that the ineffective portion and any amounts excluded from the evaluation of effectiveness be presented within other income or loss.

Currently there is no comprehensive model in GAAP that addresses classification of income statement items. Therefore we do not support an amendment that would prescribe the presentation of gains and losses associated with hedging instruments, including the effective portion, the ineffective portion and any amounts excluded from the evaluation of effectiveness.

Effective Date and Transition

Issue 8: The Board's goal is to issue a final Statement by December 31, 2008. The proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years.

Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?

We do not believe the proposed effective date provides enough time for entities to adopt the proposed Statement.

Issue 9: The Board did not prescribe any specific transition disclosures upon the adoption of this Statement.

Do you believe that there are specific disclosures that should be required during transition? If so, what? Please be specific as to how any suggested disclosures would be used.

We believe the Board should propose a disclosures requirement that is principle based focused on the users of the financial statements. The disclosure requirement should describe any material impact of the adoption of the proposed Statement and any related effects of the one-time fair value option election on the financial statements.

Issue 10: The Board decided to permit an entity a one-time fair value option election under FASB Statements No. 156, Accounting for Servicing of Financial Assets, and No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, for (a) servicing assets and servicing liabilities designated as a hedged item on the date immediately preceding initial application and (b) eligible financial instruments designated as a hedged item on the date immediately preceding initial application of this proposed Statement.

Do you agree with the Board's decision to allow a one-time fair value option at the initial adoption of this proposed Statement? Do you agree with the Board's decision to limit the option to assets and liabilities that are currently designated as hedged items under Statement 133?

We support a one-time fair value option election under FASB Statement Nos. 156 and 159 at the initial adoption date and believe it should be limited only to assets and liabilities that are currently designated as hedge items under Statement 133.

Benefit-Cost Considerations

Issue 11: The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The benefit-cost considerations considered by the Board are provided in paragraphs A43—A50 in Appendix B of this proposed Statement.

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 do not believe the benefits of the proposed Statement outweigh its costs.