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September 21, 2007

Mr. Russell G. Golden  
Director of Technical Application  
and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

File Reference: Proposed Issue E23

Dear Mr. Golden:

The American Bankers Association (ABA) appreciates the opportunity to comment on Financial Accounting Standards Board's (the Board) proposed Statement 133 Implementation Issue, *Hedging—General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (proposed DIG E23). ABA brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

We are concerned that proposed DIG E23's restrictions on utilizing the shortcut method would result in an interpretation of paragraph 68 of Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities* (SFAS 133), that was not contemplated at the time SFAS 133 was issued. The banking industry and others strongly supported the inclusion of the shortcut method, which was, in principle, intended to **reduce** the documentation and accounting burden for preparers of financial statements in situations that had no or limited hedge ineffectiveness. It appears the proposed guidance would largely eliminate the availability of the shortcut method for most industry members. We are concerned that proposed DIG E23's interpretation of SFAS 133 would result in new GAAP and, therefore, we do not support its issuance.

*The Inception of the Hedging Relationship*

Proposed DIG E23 states in Paragraph 1 that “[t]he shortcut method may be applied to a qualifying fair value hedge when the relationship is designated on the trade date of both the swap and the hedged item...” Paragraph 2 of the proposal states that “the notional amount of the swap and the principal amount of the hedged item match... over the entire term of the hedged item for a fair value hedge...” Paragraph 5 states that “fair value hedging relationship that begins subsequent to initial recognition of the hedged item would not meet paragraph 68(e).”

The effect of this guidance is to require that both the derivative and the hedged item be entered into at the same time. As stated above, many industry members have not previously understood that SFAS 133 allowed the use of the shortcut method only when the interest rate swap and the hedged item are originated on the same date. Members and their auditors have interpreted, under the guidance in SFAS 133, that a previously existing asset or liability could be designated as a hedged item under the shortcut method provided that all the criteria

of paragraph 68(e) were met. We are concerned that the proposed DIG E23 represents a new interpretation of SFAS 133 that may not reflect the how the Board intended for the original SFAS 133 paragraph 68 to be interpreted.

#### *Language*

Paragraph 4 of proposed DIG E23 states that “Paragraph 68(e) is met if the terms of both the interest rate swap and the interest-bearing financial instrument are typical for those instruments...” We propose that the use of the word “typical” may be too vague and may lead to a misinterpretation of this statement. We ask that the Board consider removing this paragraph or adding additional language to clarify how readers should identify “typical” terms.

#### *Matching*

Paragraph 5 states that a “fair value hedging relationship that begins subsequent to initial recognition of the hedged item would not meet paragraph 68(e).” As noted above, this would result in the inability to designate an existing asset or liability as the hedged item under the shortcut method subsequent to the origination of the asset or liability. This is a new interpretation of SFAS 133 for many members. This paragraph should be omitted.

#### *Timing*

Because the Board has undertaken a project to re-evaluate derivative accounting, including the possible elimination of the shortcut method, we ask the Board to reconsider its proposed issuance of DIG E23 and, alternatively, incorporate shortcut method guidance within the broader project. This would allow for a more extensive dialogue between the industry and the Board on proposed derivative guidance.

#### *Transition*

It is our view that proposed DIG E23 will result in many companies either unwinding existing hedge relationships or re-designating hedging relationships under the long haul method. The adoption of this standard will be at a significant cost and effort and, we believe, provide little benefit to financial statement users. In addition, the proposal will be a more significant burden to many smaller company preparers who are the primary users of the shortcut method. The issuance of proposed DIG E23 could result in these companies abandoning appropriate risk management strategies due to the additional cost and burden required to comply with more extensive hedge effectiveness measurement process. We, therefore, request that if proposed DIG E23 is issued, it be applied prospectively and allow for the grandfathering of existing shortcut method hedges.

#### *Effective Date*

The proposed effective date, the first fiscal quarter beginning after the date the proposed DIG E23 is approved and posted, does not allow sufficient time for members to make the system changes required to comply with the guidance. In addition, many members will need to seek external assistance in order to comply with the guidance. It may be very difficult for many companies to comply with proposed DIG E23 as of the proposed effective date. We request that the Board delay the issuance of this guidance to allow for a better study of the issue and to allow the Board to understand the impact of this proposed guidance.

Thank you for your consideration of our concerns. Please contact Charlie Gilman, ABA’s Accounting Policy Advisor (202.663.4986), or me.

Sincerely,



Donna Fisher