new york state society of
NYSSCPA
certified public accountants

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August 14, 2008

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

By e-mail: director@fasb.org

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:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned exposure draft. The NYSSCPA thanks the FASB for the opportunity to comment.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft and drafted the attached comments. If you would like additional discussion with us, please contact Edward P. Ichart, Chair of the Financial Accounting Standards Committee, at (516) 488-1200, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Sharon Sabba Fierstein

Sharon Sabba Fierstein
President

Attachment

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**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON PROPOSED STATEMENT OF FINANCIAL ACCOUNTING STANDARDS — *ACCOUNTING FOR HEDGING ACTIVITIES - AN AMENDMENT OF FASB STATEMENT NO. 133*

File Reference No. 1590-100

August 14, 2008

<u>Principal Drafters</u>

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New York State Society of Certified Public Accountants

Financial Accounting Standards Committee

Comments on Proposed Statement of Financial Accounting Standards *Accounting for Hedging Activities - an amendment of FASB Statement No. 133*

General Comments

The Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants has reviewed the Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities an amendment of FASB Statement No. 133* ("Exposure Draft") and has prepared the following comments.

We acknowledge and appreciate the Board's attempts to introduce a more principles-based approach to some aspects of Statement 133. However, we believe that a simplified, principles-based approach should be proposed on a comprehensive basis to replace all of Statement 133, and, if possible, that this should be undertaken on a joint basis with the International Accounting Standards Board. We consider our view to be supported in the "Alternative Views" section of the Exposure Draft that provides persuasive arguments against the proposed Statement when the anticipated convergence of GAAP with International Financial Reporting Standards is considered.

Specific Comments

We have the following comments on the issues identified in the Exposure Draft:

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?

<u>Response</u> - We do not believe the proposed Statement will improve financial reporting because it will not reflect the economics of hedging all individual risks. We are concerned about the inability of a company to hedge individual risks because it may be difficult or imprudent to hedge an entire instrument.

Issue 2: Do you believe that the Board should continue to permit an entity to designate interest rate risk relating to its own debt and foreign currency exchange risk?

<u>Response</u> - We believe that hedging interest rate risk related to an entity's own debt should continue to be allowed. Prohibiting the designation can result in income statement fluctuations that might be in direct conflict with the known future cash flows resulting from the hedged instruments. In addition, entities regularly hedge foreign currency

transactions to avoid income statement fluctuations. These exceptions highlight the inconsistency of not allowing hedge accounting by other individual risks.

Issue 3: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships? Would the elimination of the shortcut and critical terms matching improve or impair the usefulness of financial data?

Response - There could be some operational issues if companies do not have the appropriate systems in place to perform such tasks. Manual accumulation of data would not be cost effective. We believe the shortcut method should not be eliminated.

Issue 4: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

Response - We believe, from a principles-based perspective, it is appropriate to modify the definition of hedge effectiveness. Examples should be provided to indicate what would and would not be reasonably effective.

Issue 5: Are there any significant concerns in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective?

Response - Requiring an effectiveness evaluation after inception, only if circumstances suggest, is likely to make subsequent evaluations of effectiveness rare events. We believe that effectiveness evaluations should be required to be conducted at least annually, or more frequently if events indicate, similar with the requirements of testing for the impairment of goodwill and other intangible assets under FAS 142.

Issue 6: 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?

Response - We agree that hedge accounting should be discontinued if a hedge becomes ineffective. Regarding the suggested alternative, please see our comments to Issue 5.

Issue 7: Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts?

Response - We do not think that Statement 133 should be amended to provide additional disclosures. FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, provides sufficient transparency.

Issue 8: Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?

Response - We think the effective date should be extended to fiscal years ending on or after December 15, 2009, in order to provide companies with sufficient time to make necessary changes. However, early adoption could be permitted for companies that do not have a great deal of implementation issues.

Issue 9: Do you believe that there are specific disclosures that should be required during transition? If so, what?

Response - Because companies may not yet have been able to determine the impact, specific disclosures should not be required during transition.

Issue 10: 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?

Response - We agree with allowing a one-time election of the fair value option because that might be an alternative if current hedges are no longer viable. We do not think that the option should be limited to assets and liabilities that are currently hedged. Companies might have current hedges that do not qualify under accounting principles and may want to adopt the fair value option as a result of the changes in this proposed Statement.

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

Response - We believe that the Alternative Views discussion of the costs related to frequently changing rules in conjunction with the potential near-term convergence to IFRS is a convincing argument against proceeding with this proposal.