

40 Broad Street
New York, NY 10004-2373
Telephone 212.440.9400
Fax 212.440.5260
www.bondmarkets.com

1399 New York Avenue, NW
Washington, DC 20005-4711
Telephone 202.434.8400
Fax 202.434.8456

St. Michael's House
1 George Yard
London EC3V 9DH England
Telephone 44.20.77 43 93 00
Fax 44.20.77 43 93 01



August 12, 2002

Ms. Annette Schumacher Barr
Technical Manager, Professional Standards and Services
American Institute of Certified Public Accountants
1455 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Re: File 2850.PH - Proposed Statement of Position: *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*

The Bond Market Association (the "Association")¹ is pleased to offer the following comments in response to the above-referenced tentative guidance recently issued by the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants. The comments were developed and are being presented by the Association's Municipal New Products Committee.

The provisions of the proposed Statement of Position will affect the way many health-care organizations determine and report their performance measure. Some health-care organizations may utilize derivatives that do not qualify for short-cut method hedge accounting because the underlying index of their derivatives is The Bond Market Association Municipal Swap Index. A subset of these organizations may not attempt to achieve hedge accounting because of the efforts involved in measuring, monitoring, and predicting hedge effectiveness as required by FAS 133. Accordingly, their measure of operations may include volatility that is not the result of speculative activities but rather risk management activities reported without the benefit of hedge accounting.

One concern is that the reported volatility may affect debt covenant ratios that require the inclusion of GAAP income in their calculation. Some health-care organizations may seek to amend such covenants. AcSEC should take steps that the exposure draft is well circulated in the health-care community. We also recommend that AcSEC require a realistic effective date that will give affected entities the time to revise debt agreements.

Additionally, there was some question about educating bond insurers and possibly changing indentures (many say "earnings as defined by GAAP") or getting bondholder

¹ The Bond Market Association represents securities firms and banks that underwrite, distribute and trade debt securities, both in the United States and abroad. More information about The Bond Market Association may be obtained from its Internet website, located at www.bondmarkets.com.

consent. Again, widespread circulation of the exposure draft and a realistic effective date may help to alleviate these concerns.

The Association appreciates the opportunity to provide the foregoing comments in response to the tentative guidance. Should you have any questions or desire any clarification concerning the matters addressed in this letter, please do not hesitate to contact me at 212-440-9407 or via e-mail at Lhotchkiss@bondmarkets.com.

Sincerely,

A handwritten signature in black ink that reads "Lynnette Kelly Hotchkiss". The signature is written in a cursive, flowing style.

Lynnette Kelly Hotchkiss
Senior Vice President
and Associate General Counsel

cc: The Bond Market Association
Municipal Executive Committee
Municipal Legal Advisory Committee
Municipal New Products Committee
Municipal Policy Committee