Letter of Comment No: 10
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Mr. Lawrence W. Smith
Director—Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position No. FAS 133-a, *Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133.*

Dear Mr. Smith:

Goldman Sachs appreciates the opportunity to comment on the above-referenced Proposed FASB Staff Position (the "Proposal"). We commend the Board for issuing the Proposal, which we believe resolves a pressing practice issue. Overall, we support the Proposal but have concerns and comments about certain specific aspects as set forth below.

Fair Value Estimate at Initial Recognition

We support the guidance in paragraphs 3 and 4 of the Proposal, and believe it is a significant improvement over existing guidance. We believe the approach set forth in these paragraphs is operational and can be applied by issuers. In addition, this approach will eliminate current diversity in practice, and therefore result in greater comparability of financial statements. Most important, we believe the criteria for recognition of gains and losses at initial recognition will result in improvement in both the relevance and reliability of financial statements.

Amendment to Statement 133 Implementation Issue B6

We support the guidance in the amendment to Issue B6 because we agree that derivatives should be accounted for in the same way regardless of whether they are freestanding or embedded in a hybrid instrument. However, we are concerned about the effective date and transition provisions and their interaction with the currently outstanding Exposure Draft, *Accounting for Certain Hybrid Financial Instruments,* (the "Hybrids ED"). Because the Hybrids ED and Issue B6 deal with the same instruments, we believe the effective date and transition provisions of the Proposal, insofar as it applies to Issue B6, should be synchronized with the Hybrids ED.

If the effective dates are not synchronized, similar hybrid instruments could be reported three different ways in a single year; specifically, a hybrid instrument could be measured first under the existing B6 approach, then remeasured under the B6 approach in the Proposal, and then measured at fair value under the Hybrids ED.

In our opinion, the most effective approach to deal with these issues is to delete the B6 Amendment from the Proposal and incorporate that guidance into the Hybrids ED during its redeliberation.

Disclosure requirements

We support the Level 5 deferred credit disclosure requirements in paragraph 6(b) and believe they are practicable of implementation and helpful to financial statement users. However, we do not share that view regarding the provisions of paragraph 6(a) of the Proposal related to disclosure of unrealized gains (losses) recognized at inception for the following reasons:

First, we do not reliably track unrealized gains (losses) at inception (beyond what is currently required by Issue 02-3) because such information is not useful to us, as it merely represents a subset of our trading revenues, which are disclosed. We believe that once the reliability threshold for recognition is met, further disclosure suggests these revenues are of a lesser quality, which is not the case. In addition, we believe the disclosure requirements included in the Fair Value Measurements ED provide adequate information to financial statement users.

In addition, there are significant practical issues with intra-day reporting that would be prohibitive to overcome. We enter into a large number of transactions throughout the day. In order to compile the information requested by paragraph 6(a), a system would need to "freeze" - for each trade - a snapshot of both the trade and the market parameters that existed at the time of the trade in order to reliably measure the unrealized gain (loss). Currently, our systems (and those of most, if not all, financial intermediaries we believe) only capture that data as of the end of the trading day as part of our daily market-to-market process. Using current systems, it is not possible, therefore, to separate the gains and losses at inception from those that occur later in the same day. The amounts of post-inception, same-day gains and losses involved can be and sometimes are significant.

Similarly, we do not believe the disclosures required by paragraph 10 of the Proposal will provide useful or meaningful information, and it will be burdensome and costly to provide the information. In order to disclose the impact of the standard after adoption, it will be necessary to track derivative and hybrid instruments both on the basis of the existing guidance and the guidance in the Proposal; in other words, to maintain a second set of books and records to track thousands of individual transactions. This requirement would be applicable to both existing transactions and new ones. This will not be limited to an assessment at inception, but rather, will require on-going monitoring to assess whether unobservable inputs become observable over time. Additionally, if the B6 amendment is not deleted, systems will need to compute amortization of two different amounts of debt discount as a result of the changes in how the carrying values of debt hosts in hybrid instruments are computed. These information requirements will necessitate substantial investment in systems and infrastructure that will be used for only a single year in order to provide this information.

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We appreciate the opportunity to provide you with our views on the Proposal. If you have any questions regarding our comments, please contact me at 212-357-8437.

Sincerely,

Matt Schroeder