



March 2, 2007

Mr. Lawrence Smith
Technical Director – File Reference 1510-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: Comment Letter on Proposed Statement of Financial Accounting

Standards, Disclosures about Derivative Instruments and Hedging Activities

Dear Mr. Smith:

Wachovia Corporation is pleased to have the opportunity to comment to the Financial Accounting Standards Board (the Board) on the proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities* (the Proposed Statement). Wachovia uses derivative instruments to manage our exposure to market risk, interest rate risk and credit risk, to generate profits from proprietary trading and to assist our customers with their risk management objectives. Accordingly, we are very focused on the Board's proposal and strongly object to certain of the provisions for the reasons we outline below.

We agree with the Board's efforts to improve transparency in financial reporting by providing for more comparable disclosures around derivative instruments. However, we believe that the Proposed Statement requires a level of disaggregation that is not only unnecessary to meet the Board's objectives, but also results in disclosures that are overly complex and therefore, less beneficial to users of financial statements. Additionally, in the Basis for Conclusions, the Board explains its rejection of a fourth objective that would

Statement, however, requires an entity to disclose its management process. The Proposed Statement, however, requires an entity to disclose its management of risks through the use of derivatives. This singular view is an incomplete look at how an entity manages its risk exposures. Market risks are already required to be disclosed, on a portfolio basis, in our Form 10-K filings within the Management Discussion and Analysis through common and well-understood risk metrics (e.g. VAR reports or sensitivity analyses). It is difficult to understand how additional derivative disclosures that present an incomplete view of an entity's risk management strategies will improve and simply financial reporting.

The requirements of the Proposed Statement are overly complex and will create a need for significant systems and operational enhancements to capture data necessary to prepare what may be ten or more pages of additional disclosures, which will increase when adding comparative periods in future years. This is not consistent with the focus of the Board as stated in recent speeches and Board meetings: to reduce complexities, to improve transparency in financial reporting and to strive for convergence with international standards. Specific to the latter, the Proposed Statement falls short of convergence with the International Accounting Standards Board's recently effective standard, IFRS 7, Financial Instruments: Disclosures, which requires disclosure of a holistic view of an entity's overall risk management profile and an aggregated level of disclosures specific to the use of derivatives.

Therefore, we believe that the Board should reconsider whether the Proposed Statement meets its stated objectives. Should the Board anticipate the need for improvements to current disclosures of risk management, we believe that such project would be more appropriately addressed by the SEC through an amendment to Regulation S-K Item 305, Quantitative and Qualitative Disclosures about Market Risk.

Notwithstanding our objection, should the Board decide to issue disclosure guidance on derivative instruments as proposed, we urge the Board to consider the following recommendations:

- Remove the requirement to disclose all derivatives by primary underlying risk
- Allow net presentation in quantitative disclosures
- Remove paragraph 44C(e) regarding disclosures of leverage factors
- Define "contingent features" in paragraph 44D, limiting the necessary disclosures to contingent features related to an issuer's own creditworthiness.
- Delay the effective date until December 15, 2008

# **Underlying Risk Presentation**

Under the Proposed Statement, we believe that we will be required to disclose at least four separate tables of quantitative disclosures based on primary underlying risk (and we may be subject to as many as eight tables). Not only does this level of disaggregation present significant operational challenges, but it will also result in information that presents an incomplete view of risk management, is difficult to understand and is potentially misleading to users of financial statements. The information presents only one side of how a company manages its risks, leaving the users to speculate on whether an entity has adequately addressed its exposures.

On the contrary, the requirement to disclose derivative instruments by accounting designation and purpose will be beneficial to users of financial statements. Based on the example table provided in paragraph A15, we believe that disclosure by purpose can meet the intentions behind the suggested disaggregation by primary underlying risk. Specifically, the example includes purposes such as "Derivatives used to offset changes in 30-year treasury rates" and "Profit from changes in interest rates". With purposes this specific, disclosure of the primary underlying risk is repetitive.

By removing the requirement to disclose derivatives by primary underlying risk, the tabular presentation would be reduced from several tables to one table for each

comparable year. This format will not only reduce the complexities for preparers attempting to bifurcate derivatives by underlying risk (particularly in determining the primary risk when multiple risks exist), but it will also provide greater transparency for the users of financial statements. We therefore recommend that the Board remove the requirement to disclose derivative instruments by primary underlying risk (and in separate tables) and expand upon the definition of "purpose" to insure that the underlying risk is indicated.

### **Net Presentation**

The Proposed Statement requires the disclosure of the fair value of derivative instruments in the tabular presentation to be on a gross basis, even when the instruments meet the requirements for net presentation under FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts. Therefore, though management is permitted to report derivative instruments on the balance sheet on a net basis and may manage its exposures to certain counterparties on a net basis (regardless of the specific hedging instrument or underlying risk), entities are required to bifurcate each individual derivative instrument for footnote disclosure purposes. This approach is inconsistent with the requirements of IFRS 7, which permits net presentation in footnote disclosures where the right of offset exists. As a result, the disclosures will be misleading to users of financial statements, implying that exposures for certain underlying risks or purposes are greater than in reality (as some exposures are offset against other positions with the same counterparty). Gross presentation will also be burdensome and require significant system changes for monitoring counterparty relationships on a gross basis. Therefore, we recommend that paragraph 44C(b) be modified as follows:

"The fair value of derivative instruments shall be presented on a gross basis, unless such derivative instruments are subject to master netting arrangements and qualify for net presentation in the statement of financial position in accordance with [FIN 39]."

In addition, the Proposed Statement requires gross presentation of gains and losses on derivative instruments, including those not designated as hedging instruments. This presents significant operational challenges as trading derivatives are managed to a net offset position. In the Basis for Conclusions, the Board states that its purpose for gross presentation is to provide the location and amount of gains and losses as reported in the income statement. Gains and losses on trading derivatives are reported within the same income statement line item, on a net basis. We fail to understand how disclosure of those gains and losses on a gross basis in the footnotes will improve transparency for users and therefore recommend that the Board remove paragraph 44C(c)6.

# Leverage Factors

The Proposed Statement requires the disclosure of the magnitude that leverage factors have on our derivative instruments' notional amounts. This information may be misleading to users of financial statements as a derivative must be highly effective to qualify for hedge accounting, and therefore, the level of exposure would be highly offset by the hedged item. As this would be disclosed on a gross basis, the existing offset would not be evident to the users. For both designated derivatives and non-designated derivatives, the cost of identifying and tracking all leverage factors will be significant with minimal value to the users of financial statements. Therefore, we recommend that the Board remove this requirement from the Proposed Statement.

## **Contingent Features**

The Proposed Statement requires certain disclosures for "contingent features" found in derivative instruments, however, the Proposed Statement does not provide a definition of "contingent features". In a broad use of the term, contingent features are pervasive in derivative instruments. The Basis for Conclusions provides examples that appear to be focused on contingencies for the creditworthiness of the issuer. We therefore recommend that the Board specifically define "contingent features" as being limited to remedies of an issuer's declining creditworthiness.

#### **Effective Date**

As previously described, we believe that significant systems and operational efforts are necessary to accumulate the information required by the Proposed Statement, particularly in relation to the disaggregation required in the quantitative (tabular) disclosures. However, we, and other financial statement preparers, are currently in the process of pervasive systems and operational changes needed to implement other new standards with January 1, 2008 effective dates, including FASB Statement No. 157, Fair Value Measurements and FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities.

In addition, with an effective date of December 15, 2007, the Proposed Statement requires disclosure of information for the entire 2007 year that may not be tracked currently. This timing provides no opportunity for systems or process enhancements to adequately capture the data. Accordingly, we do not believe that the effective date of the Proposed Statement permits sufficient time for transition and implementation of the disclosure requirements. We recommend that the Board delay the effective date to fiscal years ending no sooner than December 15, 2008.

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We would be pleased to address any questions you may have regarding the comments in this letter or to discuss our position in more detail, at your convenience. I can be reached at 704-383-3021, or by email at pete.carlson@wachovia.com.

Sincerely,

Peter M. Carlson Senior Vice President and Corporate Controller

cc: Thomas Wurtz, Senior Executive Vice President and Chief Financial Officer