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LETTER OF COMMENT NO. 58

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March 16, 2007

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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File Reference No. 1510-100 Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*

Dear Technical Director:

We are pleased to submit our comments on the Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*.

We support the stated objectives for issuing this proposed Statement to address constituent concerns that the existing disclosure requirements for derivative instruments and related hedged items do not provide adequate information on the effect that derivative activities have on an entity's overall financial position, results of operations and cash flows. We believe that the current disclosure requirements of Statement No. 133 often do not result in the enough information being presented in the financial statements for readers of such statements to fully understand how and why management has utilized derivative financial instruments, let alone how they have been recorded and impact the financial statements.

We believe the proposed Statement does make some progress toward this goal, as evidenced by the addition of subparagraphs a. – c. to paragraph 44 in Statement 133. However, overall we do not believe the proposed Statement achieves the desired objectives.

We believe the proposed Statement focuses too much on giving prescriptive requirements for how and what should be disclosed such as those found in proposed paragraph 44C: total notional amounts, tabular formats, income statement classification of gain / loss on derivative by balance sheet classification and hedge accounting versus "economic hedging", etc. The proposed Statement should remove the prescriptive requirements and instead allow entities to determine the best way to provide the information required in proposed subparagraphs a. – c. of paragraph 44 in Statement 133. The preparers of financial statements would then be able to tailor their disclosures based on the needs of the expected users of their financial statements.

Our belief is further illustrated in the following comments offered in response to certain issues presented in the exposure draft and on additional matters noted.

Scope

Issue 1: The Board concluded that prescriptive guidance about how derivative instruments should be presented and classified in the financial statements should be excluded from the project's scope. Including presentation and classification guidance could potentially delay issuing a standard that would significantly improve the transparency about derivative instruments and hedged items. In addition, various presentation and classification issues related to derivatives and hedged items have an impact on the Board's current project on financial statement presentation and also would need to be addressed in the context of that project.

Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented and classified in financial statements? Why or why not? (See paragraphs B5-B11 for the basis for the Board's conclusions.)

We agree with the Board's decision to exclude guidance about how derivative instruments should be presented and classified in the financial statements.

We do have one additional comment pertaining to the scope of the proposed Statement. We noted in paragraph B5, the following statements:

"An embedded derivative separated from a host contract and accounted for as a derivative instrument pursuant to the guidance in Statement 133 would be included in the scope of this proposed Statement. A hybrid instrument (a) that under paragraph 12 of Statement 133 would be required to be separated into a host contract and a derivative instrument and (b) that an entity measures at fair value in its entirety based on the guidance in paragraph 16 of Statement 133 would not be included in the scope of this proposed Statement."

We believe these statements should be part of the proposed Statement itself and not just included in the basis for conclusions section.

Issue 2: Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities.

Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

We agree that this proposed Statement should apply to both public and private entities. However, without prescriptive requirements (if our suggestion earlier in the letter is accepted), we believe that private entities will be able to tailor their disclosures to better fit the user of their financial statements.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3: This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A.

Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely? (See paragraphs B18-B20 for the basis for the Board's conclusions.)

We understand the Board's desire to present information in a concise manner, however we believe that requiring a tabular format does not mean that this goal is met. Instead we believe the Board should provide the guidance as to

what information is important to the users of the financial statements and allow entities to determine the best format to present the information. We believe it will be a significant burden for preparers to create the systems to accumulate the information for the detailed tables. Such information likely exists in some form for most entities, but it is not organized to facilitate preparation of the disclosures.

Disclosure of Notional Amounts

Issue 5: This proposed Statement would require disclosure of notional amounts in tables that also will include fair value of derivative instruments by primary underlying risk, accounting designation, and purpose.

Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not? (See paragraphs B21-B25 for the basis for the Board's conclusions.)

We believe that the disclosure of notional amounts does provide some insight into the overall volume of derivative use. However the proposed disclosures do not allow an entity to net the notional amounts of derivatives that have been entered to offset another derivative. Without this ability it implies there is greater magnitude of risk than actually exists. Therefore without this change, we do not support this disclosure.

The proposed Statement discusses the need to disclose *leverage factors*. We believe this disclosure is extremely relevant and useful. However we noted that this term has not been defined anywhere in the proposed Statement. We recommend the Board include in the final statement a definition of this term.

The Board has also provided that this proposed Statement need not be applied to immaterial items. Due to the nature of the proposed required disclosures, such as total notional amounts, we are having difficulty in determining what would be considered immaterial. Due to the nature of derivatives, it is entirely possible that at any reporting period the fair value of an entity's derivatives could be immaterial to the financial statements as a whole. However the total notional amounts may be quite significant. In this situation, would the disclosures still be required? Does one consider the magnitude to be material although the impact to the financial statements would not be and therefore the disclosures are required?

Issue 6: This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the reporting period but no longer exist at the end of the reporting period.

Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period? Why or why not?

We concur with the Board's conclusions.

Disclosures of Gains and Losses on Hedged Items

Issue 7: This proposed Statement would require disclosure of gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people.

Do you agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Alternatively, should the tables include gains and losses on "hedged items" that are recorded at fair value and are used in hedging relationships not designated and

qualifying under Statement 133? Why or why not? Would your answer be affected by the forthcoming FASB Statement on the fair value option for financial assets and financial liabilities, which will provide the option to report certain financial assets and liabilities at fair value? (See paragraphs B33-B35 for the basis for the Board's conclusions.)

As hedge accounting is an election in Statement 133, we do not believe that presenting information regarding the use of derivatives between those that are designated and qualified hedges under Statement 133 separate from those that are not is useful in achieving the proposed Statement's goal of providing information to users of financial statements as to how the entity utilizes derivative financial instruments. We believe that it is more important to understand the risks being managed and how well the risks are being managed versus which accounting treatment has been elected. Separating the tables in this manner would, we believe, imply otherwise. As an illustration of this point, assume that an entity has entered into three different derivatives all of which are hedging a similar liability. Also assume that these three hedges are economically the same and all would qualify for hedge accounting. However the entity elected to document only one of these hedges to achieve hedge accounting. We believe it should not be implied that the two not designated are not economically the same as the one that is designated.

We do believe it is important to understand how the hedge accounting election impacts the financial statements, but we also believe that entities can determine the best format for this information. Therefore we recommend the Board reconsider this required presentation.

Examples Illustrating Application of This Proposed Statement

Issue 9: This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in the derivative instruments, and counterparty credit risk. Those examples are intended to illustrate one potential way of communicating information about how and why an entity uses derivatives and the overall effect of derivatives on an entity's financial position, results of operations, and cash flows. The examples are not intended to be construed as the only way to comply with the disclosure requirements.

Are those examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and on the overall effect of derivatives on an entity's financial position, results of operations, and cash flows? Or, do you believe those examples would be viewed as a prescribed method to comply with the requirements of this proposed Statement?

If the examples provided in the proposed Statement are not intended to be construed as the only way to comply with the disclosure requirements, then more than one format should be provided in the examples. We believe that the presentation of only one format will result in the format being considered an example of a "safe harbor" and other formats will not be considered.

Amendments Considered but Not Made

Issue 10: The Board considered but decided against requiring additional disclosures as described in paragraphs B55-B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception.

Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

We concur with the Board's decisions not to require disclosures in the areas listed above.

Other Comments

Paragraph 3.b., subparagraph c.(1) states "At a minimum, the amount excluded from effectiveness testing shall be provided separately in a footnote to the table required by this paragraph." We do not understand why this disclosure is necessary since the method for computing effectiveness was determined not to be necessary.

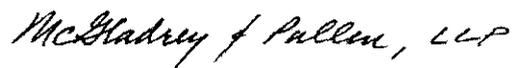
The last paragraph of paragraph 3.b. requires individual tables to be present for interest rate risk, credit risk, foreign currency risk and overall price risk as those are currently defined in Statement 133. We believe that overall price risk is not defined in Statement 133 and instead is referred to as "risk of overall changes in hedged cash flows" or "risk of changes in the overall fair value of the entire hedged item". We recommend the Board consider either defining overall price risk in the proposed Statement or changing the wording to be consistent with the wording used in Statement 133.

Paragraph 3.d, subparagraph b. requires disclosure of the fair value of derivatives in asset positions net of collateral posted by the counterparty. This disclosure goes beyond requirements in other GAAP when contracts are secured by collateral. This also raises the question as to how to determine the value of the collateral for the disclosure purposes. We assume that the only value that would be useful would be the current fair value of the collateral. With that assumption being true, it then leads to other issues related to determining fair value when the collateral is not a financial instrument, such as a building. If arrangements are not in place to access the information necessary for an ongoing determination of the fair value of the collateral, preparers may not be able to comply with this requirement, at least initially for arrangements that exist at the date of transition. We believe a practicality exception should be made for existing arrangements at a minimum.

In paragraph A11 example, the last sentence of the example simply states "The company also uses derivative instruments to profit from expected changes in interest rates." Considering the objectives for issuing this proposed Statement, this one sentence description is not adequate information, even with the accompanying table, for readers of the financial statements to understand how derivative instruments are being utilized by an entity. We would expect that if an entity was using derivative instruments to profit (i.e. speculate) there would be as much, if not more information provided in the footnote as there is related to those derivatives that are entered into to hedge a risk.

If you have any questions regarding our comments, please contact Jay Hanson at (952) 921-7785 or Jolene Hart at (952) 921-7735.

Sincerely,



McGladrey & Pullen, LLP