LETTER OF COMMENT NO. 45

March 7, 2007

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 1510-100

Dear Sir/Madam:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our response to the proposed statement *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.* 133. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

General Comments

We believe that this project would be better implemented as a comprehensive project to assess all disclosures related to fair value, including derivatives and hedging relationships that are implicit in election of the fair value option. Ideally, we would prefer to see that project as a joint effort with the IASB to ensure convergence, to minimize the cost of preparing financial disclosures, and to ensure comparability of information with that of global competitors.

If however the Board elects to proceed with the current ED, we do not believe the proposed effective date is practicable. We believe the disclosure requirements and the effective date should be coordinated with the requirements and the effective dates of Statement Nos. 157 and 159. Otherwise, the disclosures would be uncoordinated and the measurement procedures used in the first year of implementation could differ from the rules employed in the subsequent period. We believe the related nature of the Statements argues for coordinated implementation.

Specific Comments

The following discussion is organized according to the questions provided in the exposure draft.

Issue 1: 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 the financial statements? Why or why not?

We agree with the Board's decision to exclude prescriptive guidance on presentation from scope of this project. The appropriate presentation may vary depending on the nature of the business, the extent to which derivatives are used, and how derivatives are used.

Issue 2: Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

We agree with the Board's assessment.

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?

We are concerned that the proposed requirements impose excessive costs relative to the expected financial reporting benefits. Financial reporting should be clear and concise. Although the proposed disclosures may capture some of the characteristics of interest-rate risk and related derivatives, it may be less relevant to other types of contracts such as foreign currency or commodity derivatives. In those cases, the contracts may be offsetting risks relating to future transactions or events that would not be included in the summary tables. A reader without knowledge of those events would not assess the risk correctly. Information about those future transactions or events is proprietary to the firm and disclosure may be neither feasible nor desirable.

Issue 4: This proposed Statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features. Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure?

Although we do not see operational issues connected with compiling the information in points (a) and (b), the information requested in (c) may be difficult to operationalize, depending on how the requirement is interpreted. The disclosure combines an actual fair value (presumably under current conditions) of assets in the event of a hypothetical event that would trigger a contingent feature. For example, the amount of the collateral may vary, depending on the nature of the contingent clause. Any figure presented would provide little or no useful information without an assessment of the likelihood that the contingent feature could be triggered.

Issue 5: This proposed Statement would require disclosure of notional amounts in tables that also will include fair values 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?

We believe that notional amounts have very little information content in and of themselves. Rather, it is necessary to evaluate other qualitative terms of the contracts in order for readers to use the information to form their own risk assessment. In order to do that, it would necessary to provide voluminous information that would be neither clear nor concise.

Issue 6: 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 agree that the notional amounts related to derivatives that no longer exist should not be disclosed. We believe that the information lacks relevance and that the costs of accumulating and reporting the information would exceed any potential benefits to users.

Issue 7: 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?

We believe that the disclosure tables should be reevaluated to consider how much of the information is already provided in other disclosures about instruments at fair value, including disclosures about derivatives for which the fair value option has been elected.

Issue 8: Do you agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity? If not, should additional information about an entity's overall risk management strategies be provided as part of the tabular disclosure required by this proposed Statement?

We disagree with this encouraged disclosure to the extent that it duplicates disclosures already included outside the financial statements of companies that file with the SEC. If that discussion is to move within the scope of the financial statements, we believe that it should be concurrent with elimination of other requirements that may be prepared using different guidelines.

Issue 9: Are [the] 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?

We believe that examples and illustrations are generally helpful in clarifying the intent of promulgated standards. We do not believe that such examples are viewed as a prescribed method for implementation.

Issue 10: Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

We agree with the Board's decisions not to require the additional disclosures.

Issue 11: The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required. Does the effective date provide sufficient time for implementation?

We do not believe the proposed effective date is practicable. The disclosure requirements and the effective date of this proposed statement should be coordinated with the requirements and the effective dates of Statements 157 and 159. Otherwise, the disclosures would be uncoordinated and the measurement procedures used in the first year of implementation could differ from the rules employed in the subsequent period. We believe the related nature of the statements argues for coordinated implementation.

We also do not believe that the full set of disclosures is necessary in interim financial statements. Users of summarized interim financial information will view that information in the context of the latest published annual report. We believe that a more concise interim disclosure, together the most recent annual disclosure, would meet the reasonable needs of users of interim financial reports.

We appreciate the opportunity to offer our comments.

Sincerely,

Leonard C. Soffer

Leonard C. Soffer, Chair
Accounting Principles Committee

<u>APPENDIX A</u>
ILLINOIS CPA SOCIETY
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2006-2007

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large (National Firms):	
Matthew L. Brenner, CPA	PricewaterhouseCoopers LLP
James L. Fuehrmeyer, Jr., CPA	Deloitte & Touche LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Steven C. Johnson, CPA	McGladrey & Pullen LLP
Matthew G. Mitzen, CPA	Virchow Krause & Company, LLP
J. Christopher Rabin, CPA	McGladrey & Pullen LLP
Reva B. Steinberg, CPA	BDO Seidman LLP
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Kathleen A. Musial, CPA	Benham, Ichen & Knox LLP
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Melinda S. Henbest, CPA	The Boeing Co.
James B. Lindsey, CPA	TTX Company
Annette M. O'Connor, CPA	RR Donnelley Logistics
John H. Wolter, CPA	Retired/Natural Gas Pipeline Company of America
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David L. Senteney, CPA	Ohio University
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Paul E. Pierson, CPA	Illinois CPA Society