



LETTER OF COMMENT NO. 10

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Mr. Lawrence W. Smith  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**Re: Proposed FASB Staff Position No. FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement 133 and FASB Interpretation No. 45***

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position No. FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement 133 and FASB Interpretation No. 45* (the "FSP"). We generally support the FSP, as the proposed disclosures would improve transparency and consistency by extending existing disclosure requirements (with some modifications) for financial guarantees to all credit derivatives. While we support the FASB's effort to improve the consistency of disclosures among instruments with similar economic characteristics, we believe that the Board should consider the following items in its deliberations.

Scope

According to paragraph 8, the FSP applies to credit derivatives within the scope of FAS 133. Although the term *credit derivative* is not explicitly defined in FAS 133 or the FSP, the FSP notes that a credit derivative is "generally" a contract in which the underlying is related to the credit risk of a specified entity (or group of entities) or an index based on a group of entities. The FSP also provides examples of types of instruments that are considered credit derivatives. We note that credit risk may be present in the underlying of other derivative instruments that are not typically considered credit derivatives. For this reason, we believe that the current language may create confusion about whether items that are not typically considered credit derivatives are subject to the FSP's requirements. We believe that the objectives of the standard could be better achieved by providing a slightly modified and unqualified definition of a credit derivative. To achieve this, we recommend that the language in paragraph 8 be modified as follows:

Credit derivatives are ~~generally contracts~~ derivative instruments in which the primary underlying is related to the credit risk of a specified entity (or a group of entities) or an index based on a group of entities.

Disclosure of Maximum Future Payments

The FSP requires disclosure of the maximum potential future payments (undiscounted) that the seller could be required to make under each credit derivative. We agree that this information, along with the information required by paragraph 44DD, provides insight into the financial risks that a seller is exposed to under these derivative agreements. In certain situations, however, an entity may engage in



other risk management activities that could offset their maximum potential exposure. In these circumstances, only disclosing the maximum future payments may be misleading. For example, the aggregate maximum exposure of individual derivative contracts issued by a large seller of credit derivative instruments could be misleading because the entity manages its risk on a net basis or the derivatives may be subject to master netting arrangements, which the entity may use to manage its exposure to certain risks across multiple types of derivative instruments.

We believe that the Board should acknowledge that in some cases, the disclosures for maximum potential future payments could be misleading without additional contextual information. We recommend that the Board consider requiring entities to provide additional descriptive disclosures to set the appropriate context for the disclosure of maximum potential future payments.

Effective Date and Transition

A final FSP is expected to be issued by September 30, 2008, and as currently written, will be effective for fiscal and interim periods ending after November 15, 2008. The anticipated time frame between issuance and implementation is relatively brief, given the time and effort we believe it will take for entities to accumulate the required disclosure data. For this reason, we recommend that the implementation date of the FSP be aligned with the implementation date of FASB Statement 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161), as their objectives are similar. FAS 161 is effective for fiscal and interim periods beginning after November 15, 2008.

\* \* \* \* \*

We appreciate the opportunity to express our views on the proposed FSP. If you have any questions regarding our comments, please contact Marc Anderson (973-236-4678) or Russ Mallett (973-236-7115).

Sincerely,

*Price Waterhouse Coopers LLP*