LETTER OF COMMENT NO. 27

KOCH INDUSTRIES INC

March 2, 2007

Technical Director
Financial Accounting Standards Board
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Koch Industries, Inc. ("KII"), a privately-held company, is pleased to comment on the Proposed Statement of Financial Accounting Standards, ***Disclosures about Derivative Instruments and Hedging Activities***, dated December 8, 2006. KII and its subsidiaries ("the Company") are engaged in operations, trading and investments worldwide and in many industry sectors – including petroleum refining and chemical manufacturing, consumer products, building products, fibers and resins, nitrogen-based fertilizers, industrial combustion and pollution control equipment, commodity and financial trading, and other strategic investments. The Company has operations in over 60 countries and over 80,000 employees worldwide.

The Company prepares financial reports to communicate financial information to management, the board of directors and our shareholders, and to satisfy the financial statement filing requirements of rating agencies, banks, bond holders, regulators, and governmental agencies. The Company also uses financial statements of others in our roles as investor and creditor. Further, two of our businesses, Georgia-Pacific and INVISTA, have outstanding debt securities traded in the over-the-counter (OTC) market. Financial information provided by these businesses must meet public company requirements. Therefore, the Company is keenly interested in the reporting requirements of both private and public companies and in the needs of a diverse group of financial statement users. As such, the Company proactively seeks to understand the needs of financial statement users and to provide meaningful information in a profitable manner.

The Company utilizes derivative instruments for trading and nontrading purposes. The Company enters into financial instruments and commodity contracts to manage price risk associated with commodity inventories, energy requirements, and purchase and sale commitments in our refining, transportation, and processing businesses. The Company also provides risk management services to its customers. Therefore, the Company's derivative positions are predominately commodity-based and include, but are not limited to, fixed physical forwards, commodity swaps, futures and options. The Company enters into interest rate swap contracts designated in either cash flow or fair value hedges and sells protection on single-name corporates and/or structured credit in the form of credit derivative swaps.

The Company supports the objectives of the proposed Statement. However, we believe the intent of the Statement has not been achieved as the Statement is currently written for the following reasons:

- The existing disclosure requirements of FASB Statement No. 133, except as noted below, are sufficient and that compliance with those requirements, rather than additional disclosures should be the focus of the FASB.

  As the extent of use and complexity of derivatives and hedging activities increases, we believe that an entity has a responsibility to provide enhanced disclosures areas about its use of derivatives to ensure that its financial statements provide meaningful information to users. However, the disclosures can not be so extensive that an entity's proprietary trading or risk management strategies are revealed. Enhanced understanding could be better achieved through improved organization of qualitative disclosures. The interests of certain user groups such as rating agencies and banks would be better served through supplemental information (see further discussion below) as is the current practice.

- The level of aggregation on notional amounts is unclear and subject to interpretation. In paragraph B26, the notional amounts are to be disclosed on the absolute value associated with each derivative instrument. How does the FASB intend for entities and auditors to interpret "each derivative instrument?" By derivative type so that commodity-based derivatives are aggregated as options, forwards, futures, swaps, etc.? Or is this by underlying risk – pricing, interest rates, currency, etc. so that all commodity-based derivatives are aggregated by the primary underlying risk managed (irrelevant for trading derivatives yet included in the scope of disclosures)? If the latter, then we stress again how useless notional amounts are to understanding management of risk with commodity-based derivatives (see attachment for alternative disclosure views). Notional amounts for commodity derivatives are expressed in many units of measure (e.g., barrels, tons, MMBTUs, bushels, etc.) and are therefore not easily aggregated. Listing numerous types of contracts is overly burdensome and may reveal proprietary information.

- The FASB has not clearly articulated the purpose for requiring disclosure of notional amounts for <u>all</u> derivatives. If the disclosure of notional amounts is intended to provide users with the ability to impute earnings volatility related to fair value changes, then without specific tenors on the corresponding notional amounts such imputations will be meaningless or invalid and not useful. If the notional amounts were disaggregated by tenor the amount of information would be overwhelming for users. Further, for *commodity-based risk management derivatives used as economic hedges*, the underlying on derivative instruments of similar type (e.g., commodity swaps, fixed physical forwards, options) can vary widely and when summarized to a single unit of measure (e.g., barrels, mmbtu's, metric tons, etc.) would lose all usefulness in estimating earnings volatility or in understanding how the entity is managing risk. Disclosure of long and short positions would provide too much transparency into an entity's proprietary strategies.

- We believe the enhanced disclosures – especially notional amounts - are directed more towards financial derivatives or financial entities as currently written and should be limited in scope to financial derivatives such as interest rate swaps. We view the tabular disclosure requested in the proposed Statement to be inappropriate for commodity-based derivatives and trading derivatives. The table should be limited to certain financial derivatives or for financial entities.
- Disclosure of gross derivative assets and liabilities irrespective of netting arrangements will only add confusion to users or misunderstanding in determining how risks are being managed. We reflect all derivative assets and liabilities on the face of the balance sheet on a net basis where legal right of offset exists. Our footnote disclosure table ties to our balance sheet by current and noncurrent asset and liability classification. We also disclose by derivative type (e.g., futures, forwards, commodity swaps, etc.). By disclosing derivative assets and liabilities by derivative type, the risk of netting by derivative type (as discussed in B27) is eliminated. Further, counterparty risk disclosures are connected to the asset positions after netting arrangements are applied. Additional reconciliation would then be required to connect the users to counterparty risk disclosures and is unnecessary work for no benefit.

Our views are based on discussions with users of our financial statements and our experiences as a preparer of financial statements and as a user of financial information to make investment and credit decisions.

We also provide the following responses to the issues presented in the proposed Statement:

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?*

Response: Yes, we agree with the scope limitation to exclude prescriptive guidance about how derivative instruments should be presented and classified in the financial statements for the same reasons stated in paragraph B10 – entities identify and manage risk in different ways. We present all derivatives in the financial statements on the face of the balance sheet as separate line items. Most entities do not present derivatives in this manner. We believe our method of reporting on the balance sheet is beneficial for the users of our financial statements but may not be for other entities.

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

Response: Yes. We believe the scope of this proposed Statement should be indifferent to an entities private or public reporting status. However, we do believe the enhanced disclosures – especially notional amounts - are directed more towards financial derivatives as currently written and should be limited in scope to financial derivatives such as interest rate swaps, currency swaps, credit derivatives, etc.

Issue 3: *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?*

Response: We do not agree with the format required by this proposed Statement. We believe there is no significant benefit to financial statement users from disclosures of notional amounts of commodity-based derivatives by primary underlying and accounting designation. Concise disclosure of notional amounts of commodity based derivative instruments would require the conversion of the units of measure of multiple underliers to a smaller group of common units of measure. Such conversion and aggregation would also reduce a user's ability to assess risks inherent in derivatives by removing information about how different derivatives react to price changes. The Company has long and short positions in commodity-based contracts, the aggregation of all positions into one catch-all table would reduce the value of the information provided and would not serve the objectives the FASB has intended. Without tenors matched to derivative instruments, computation of changes to fair values would be impossible. To require such disclosure would require a much lower level of aggregation that would be overwhelming to users and be too costly to prepare.

Further, for derivatives used for trading purposes, such disclosure is clearly irrelevant to understanding an entity's use of derivatives. In Statement 133, the Board quoted from Statement 119 to support its position to eliminate the disclosure of the average fair value of derivative financial instruments held for trading purposes that "trading positions typically fluctuate, and the ending balance may not always be representative of the range of balances and related risks that an entity has assumed during a period." Trading derivatives should be excluded from the scope of this proposed Statement, if the FASB continues forward with the project.

We work closely with our rating agencies (Standard & Poor's and Moody's) on our commodity-based derivative trading book. The rating agencies' focus is predominately on the profitability and risk metrics of the trading business whereby supplemental reporting is provided to them. Notional amounts for this business are irrelevant to the users of our financial statements. We are suggest continuing the process of providing supplemental schedules directly to our rating agencies as no other user of our financial reports would benefit from such disclosures. Further, any disclosure of profitability and risk metrics of our trading business would be considered proprietary information.

Disclosures that May Accomplish Objectives
In discussions with one of the rating agencies, we determined that the current level of disclosure in the financial statements is adequate to the extent the following information is provided:

For all derivative activities:

- Tenor or maturity of derivative instruments on a gross asset and liability basis;
- Source of fair value quotes for quality of marks on a gross asset and liability basis;
- Qualitative information on value at risk calculations;
- Quantitative information on gains and losses recognized in the income statement with realized and unrealized gains and losses separately disclosed;

For commodity, risk management or economic hedge derivatives:

- Notional volumes where future production is being economically hedged

- Qualitative information on strategies considering how economic hedges are used along with risks being hedged including the extent to which risk has been mitigated

Credit risk:

- Qualitative disclosures on management of credit risk exposure; and
- Quantitative disclosure of credit risk exposure, net of collateral, by counterparty rating classes

See Attachment A and B for disclosure tables we have prepared in our annual reports that may be more value added in achieving the objectives of the proposed Statement.

Further, we believe disclosures about price risk management activities focused only on period-end values -- notional amounts and fair values, are not as useful to our users as disclosures about the extent to which risk has been mitigated and should be provided narratively in a qualitative disclosure about the entities risk management program.

Issue 4: *Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure?*

Response: No. We do not have any concerns regarding the requirements for contingent features.

Issue 5: *Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not?*

Response: No, we do not agree. Please see our response under Issue 3.

When the FASB issued Statement 133, disclosure of the "face or contract amount" for all derivative financial instruments held at the balance sheet date was eliminated. The premise for eliminating this disclosure was that its informational value was lessened by the requirement that all derivatives be recognized in the balance sheet at fair value. The usefulness of this disclosure was suspect given the manner in which an entity uses derivatives. Also, many respondents were concerned that this disclosure was not operational. The FASB needs to provide more information regarding the benefit gained from this disclosure versus the cost of compliance. We concurred with the FASB's decision in Statement 133 to eliminate the disclosure of notionals except when it improves understanding of the entity's use of derivatives.

We work closely with the rating agencies (Standard & Poor's and Moody's) on our commodity-based derivative trading book. The rating agencies' focus is predominately on the profitability and risk metrics of the trading business whereby supplemental reporting is provided to them. Notional amounts for this business are irrelevant to the users of our financial statements.

We do not believe that once notional amounts on commodity-based derivatives are placed on a common unit of measure and then summarized into underlying risk, accounting designation, and purpose will provide the "insight into the overall pervasiveness of the use of derivatives and the risks they are intended to manage."

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?*

Response: Yes. We agree that the proposed Statement should not require the disclosure of notional amounts on settled derivative positions. Requiring such disclosure could possibly provide far too much insight into an entity's proprietary strategies if aggregated by derivative instrument.

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? 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?*

Response: Yes. We agree with the Board's conclusions on excluding information about the underlying hedged items for economic or risk management hedges from the disclosure tables that are not qualified fair value or cash flow hedges. We support disclosure of all realized gains and losses irrespective of hedge designation; however, we do not support the Board's attempt to summarize all things derivative into one consolidated table.

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?*

Response: Yes, we believe that the required disclosures in paragraphs 44 and 45 of Statement 133 are sufficient when written and organized in a clear and concise manner in the notes to the financial statements.

Issue 9: *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?*

Response: The examples for qualitative disclosures are helpful and are not considered prescriptive.

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

Response: We agree with the Board's decisions as the added disclosures as described in paragraphs B55-B63 would not add any real value to an entities exposure to risk and it's risk management strategies.

Issue 11: *Does the effective date provide sufficient time for implementation?*

Response: We do not believe the effective date provides sufficient time to implement changes to our written disclosures plus how data is gathered across a very large consolidated organization with many impacted businesses. We will also need ample time after the final Statement is issued to work with our auditors on presentation and interpretation.

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We appreciate the opportunity to comment on this proposed Statement. If you have any questions regarding our comments or wish to discuss any other matters discussed herein, please contact me at 316-828-6486.

Sincerely,

Richard Dinkel
Chief Accounting Officer
Koch Industries, Inc.

Attachment A – Example 1 of Alternative Tabular Disclosures

The following table summarizes the fair values of the Company's derivatives:

	December 31, 200X		December 31, 200X	
Derivative Type	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Futures	$	$	$	$
Options				
Commodity swaps				
Fixed physical forwards				
Currency swaps				
Interest rate swaps				
Credit derivatives				
Total				
Less current portion				
Long-term derivatives	$	$	$	$

The following table summarizes the maturities of the Company's derivatives at December 31:

	December 31, 200X		December 31, 200X	
Maturity Term	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Within 3 Months	$	$	$	$
3 Months to 1 Year				
1 to 3 Years				
In Excess of 3 Years				
	$	$	$	$

The following table summarizes the source of fair value of the Company's derivatives at December 31:

	December 31, 200X		December 31, 200X	
Source of Fair Value	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Published prices	$	$	$	$
Externally verified				
Internally developed				
	$	$	$	$

The following table shows the fair value of the Company's derivative assets by credit quality of the counterparty at December 31:

Credit Quality	200X	200X
Investment grade	$	$
Below investment grade		
Not rated		
	$	$

Attachment B – Example 2 of Alternative Tabular Disclosures

The following tables illustrate the source of fair value and the maturity of the Company's derivative assets and liabilities:

As of December 31, 200X:

	Fair Value of Net Derivative Assets and Liabilities				
Source of Fair Value	Within 3 Months	Maturity 3 Months to 1 Year	Maturity 1 – 3 Years	Maturity in Excess of 3 Years	Total Fair Value
Commodities and other:					
Actively quoted exchange prices	$	$	$	$	$
Other external sources					
Models/other valuation methods					
Total commodities	$	$	$	$	$
Interest rates & foreign currency:					
Other external sources	$	$	$	$	$

As of December 31, 200X:

	Fair Value of Net Derivative Assets and Liabilities				
Source of Fair Value	Within 3 Months	Maturity 3 Months to 1 Year	Maturity 1 – 3 Years	Maturity in Excess of 3 Years	Total Fair Value
Commodities:					
Actively quoted exchange prices	$	$	$	$	$
Other external sources					
Models/other valuation methods					
Total commodities	$	$	$	$	$
Interest rates & foreign currency:					
Other external sources	$	$	$	$	$