

LETTER OF COMMENT NO. 29

To: Technical Director, FASB

From: Wesley K. Underwood, M.A.S., C.P.A.

Date: March 2, 2007

Re: Comments on Exposure Draft (ED) File Ref. No. 1510-100

Thank you for providing the opportunity to comment on the recent ED issued by the FASB, entitled *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133.

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 the financial statements? Why or why not?

I agree with expediting the issuance of a standard that will increase the transparency on financial statements of derivative instruments and hedged items, intended to assist financial statement users in gaining a complete understanding about why the reporting entity uses derivatives in the context of the entity's risk exposures.

However, if not included within this Statement, I would strongly favor the FASB following as soon as possible with additional, detailed prescriptive guidance about how derivative instruments (and their related cash flows) should be presented and classified in financial statements.

The explosion in volume of investment activity in derivatives and derivativerelated investment products gives rise to numerous, detail questions about how various derivative instruments and their related cash flows should be accounted for and classified for financial reporting purposes.

Where explicit, prescriptive GAAP guidance is absent (a "principles-based accounting standards" approach), reporting entities have a degree of freedom to choose from accounting or reporting options that fall within the realm of "acceptable GAAP." Such variation in accounting and reporting may result in varied financial statement *geography*, without adverse impact to the bottom lines on a balance sheet or income statement.

However, even where individual reporting entities consistently apply "acceptable GAAP" accounting and financial reporting methodologies to their derivative investments, consistency and comparability of financial statements could be further increased pursuant to additional, explicit GAAP guidance about how derivative instruments should be classified within financial reporting, and how the cash flows related to those should be accounted for and reported.

I would favor the FASB issuing greater detail guidance intended to direct reporting entities towards consistent methodologies for accounting and reporting for derivatives instruments, and for their related cash flows.

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?

I agree with including a requirement to disclose notional amounts within the notes to financial statements, for derivatives held. Notional amounts constitute important information intended to assist users in understanding the degree of risk and exposure associated with derivative holdings in a manner not accomplished solely by reporting the fair value of such investments. Unique to derivatives, notional amounts give insight into the nature and degree of a reporting entity's exposure to underlyings, and aid in assessing the potential for experiencing future gains or losses from the derivative positions.

I also believe that additional clarity would be useful regarding the definition of "notional amount". For the increasing numbers of and increasingly complex types of derivatives, the term "notional amount" has varied application. In some cases, a notional "amount" relates directly to the quantity of an underlying asset, for which a corresponding "notional market value" can also be identified. In other cases the notional "amount" is not as directly evident.

I would favor additional specificity from the FASB in the definition of the notional amounts that would be required to be disclosed by the proposed Statement, as the term applies to the many and varied derivative instruments that currently exist within the marketplace.

Issue 9: This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in 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?

The examples are very helpful and in my opinion should be retained. It may be straightforward to indicate within the Statement that the examples are not intended to be prescriptive, and that other disclosure presentations would also be acceptable.

In my opinion, it would be helpful if the disclosure examples were even more detailed and specific. Providing sample disclosures for specific examples of actual derivative positions would be useful, including for example various types of futures contracts, option contracts, swap contracts, and forward contracts. Such examples would assist reporting entities in complying with the requirements, and would lead towards greater consistency and comparability of their published financial statements.

If you have any questions about these comments, please feel free to contact me. Thank you.

Respectfully submitted,

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