







## interpreting risk data for better

The FASB 115, FASB 124 and EITF 99-20 will need time to implement to achieve its desired goal of transparency and comparability in financial reporting. Rushing to implement a rule at this recessionary stage in the economy will likely intensify market concerns. The proposed rule acknowledges that lack of clarity as to whether a market may exist for any instrument. What size constitutes a "market" for valuation purposes? What if the intent of market participants differ – speculator, short term investor, hedger, long term investor? While all participants face the same price in a market, should the nature of the disclosure differ – to avoid misleading gyrations in equity? We again state that we support the goal but caution that the implementation process is being unduly rushed – and can lead to unintended consequences. More specifically:

## FSP FASB 115, FASB 124 and EITF 99-20:

- Yes. The separation is useful and sheds light on the robustness of each reporting entity's risk reporting models. The separation, if reported for each security in an addendum, will allow users of financial statements to compare the two components of the same instrument from one holder to the other. However, we believe that there should be at least a 12 month trial implementation period for market participants to anticipate potential implications, adjust and adapt as necessary before adopting the rule.
- 2. As we are a single focus structured finance risk advisory firm, we make only pertinent comment affecting structured finance securities (cash and synthetics). We are concerned that FASBS114 concerning accounting for loans may not fully address the specific risk issues in derivatives including synthetics. Technically, we believe that there are enough market and disclosure mechanisms in place to make objective measurements to determine whether a security is active or is in distress based on the expected cash flow obligations flowing in each direction as contained in the underlying transaction documents. What is needed is more educated oversight in terms of reporting risk aggregates at each firm or entity level with specific disclosure of nominal risk aggregates in the trading books of each market participant, with explanations of charts showing daily volumes trends in nominal trading book exposure over a 12 month period, and risk mitigating strategies if key assumptions fail.
- 3. No, we do not believe that the proposed modification is operable. While management may be able to assert its intent, it is not clear they can always reliably project (1) the sufficient time needed to hold the impaired security in order recover impaired value (2) to project what the recovery value may be.
- 4. No additional comment.
- 5. NA

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