## COMMENTS ON FASB STAFF POSITION No. FAS 133-a ACCOUNTING FOR UNREALIZED GAINS (LOSSES) RELATING TO DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE UNDER STATEMENT 133

## Respondent's name and affiliation

Letter of Comment No: 3 **Bob Deere** Name:

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We are grateful for the opportunity to comment on the proposal and have the following comments:

We believe that the proposed staff position as currently drafted does not provide for increased clarity in financial reporting, particularly as it is linked to the proposals set out in FAS 15X. For certain derivatives the degree of judgement that will be required under FAS 15X to determine where they fall within the 5-level hierarchy is so extensive, and therefore open to differences in interpretation and inconsistency, that we think it is likely to undermine the objective of increasing clarity in the information presented. There will also be practical difficulties in meeting the disclosure requirements which we believe are unnecessarily complex.

Under FAS 133-a, gains and losses associated with the day one valuation are deferred on the balance sheet only for Level 5 derivative instruments. This appears arbitrary within the context of FAS 15X and is not clear as to the benefits this would bring. Also, we believe that retrospective application as of the beginning of the first year of application would be complex, and inconsistent with the prospective application of FAS 15X. In addition, the proposal could potentially create differing interpretations (as discussed below) and also diverge from International Financial Reporting Standards.

It is currently unclear from the proposal whether or not an inception gain or loss can be calculated and deferred on the balance sheet on a derivative that falls within Level 5 of the fair value hierarchy if paragraph 3b is not met. It is possible to interpret from paragraphs 3 and 4 that the only way to rebut the presumption that fair value equals the transaction price on day one for a Level 5 derivative is where the market of the deal differs from the pricing market (such as a retail deal against a wholesale market curve). However another interpretation is that a day one gain can be calculated using standard extrapolation techniques on a Level 5 derivative and defer the gain on the balance sheet. Clarity around this point is critical to ensure proper application.