



LETTER OF COMMENT NO. 1分

Central Finance

Shell International B.V.
PO Box 162
2501 AN, The Hague
The Netherlands
Tel + 31 (0)70 377 4646
Fax +31 (0)70 377 3308
Email B.Deere@shell.com
Internet http://www.shell.com

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By e-mail: Director@FASB.org File Reference No. 1510-100 Financial Accounting Standards Board, 401 Merrit 7, PO Box 5116, Norwalk, CT 06856-5116

Dear Sir,

Exposure Draft Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133

We are grateful for the opportunity to comment on this Exposure Draft. We have responded to the specific questions raised and have preceded these with some general observations.

General Observations

We agree that derivatives are a significant area of financial accounting and require transparent disclosures. We note the existing IFRS disclosures in this area (including the recently-introduced IFRS 7) and suggest providing further details on the extent to which they have been considered. ED paragraph B70 (International Accounting Comparison) notes only that the proposed FASB statement was not developed with the objective of international convergence; however we see no benefit - for either accounts preparers or accounts users – in introducing new divergences.

Whilst the ED would require very extensive details of derivative past performance, we do however wonder whether these fully meet the stated objective of showing how such instruments modify the risks that an entity is facing. For example, in periods when the market for an underlying has been relatively stable, past performance may not reveal the potential financial consequences of significant future price movements. We therefore suggest including additional or alternative disclosures that would provide information on such exposure – for example value at risk analyses.

Specific questions

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? (See paragraphs B5–B11 for the basis for the Board's conclusions.)

We agree with the Board's decision.

Issue 2: Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities.

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

No comments.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3: This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A.

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? (See paragraphs B18–B20 for the basis for the Board's conclusions.)

We would expect that compiling and reviewing the information in the format and detail proposed would require significant effort and the resolution of possible system constraints. We would also expect that (as discussed further in our response to Issue 11) some entities would not be able to set up the necessary robust processes within the implementation timeframe proposed.

We also believe that the amount of detail and the level of granularity in the proposed categories would be subject to possible inconsistency in interpretation that could undermine its usefulness. For example the current wording within the ED appears to imply that risk management activities, including those not in a designated hedge relationship, would need to be disclosed in detail separate from trading activities. Where such activities are managed within an integrated portfolio, this would require analysis and trade selection that may be artificial and arbitrary and would require increased resources, in instances where entities have intentionally chosen to simplify their reporting by deciding not to apply hedge accounting.

The additional resource requirements and the arbitrary selection criteria that may arise, appear to outweigh the benefits to be gained from this disclosure.

Issue 4: This proposed Statement would require disclosure of:

- (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses),
- (b) the aggregate fair value amount of derivative instruments that contain those features, and
- (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features.

Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure? (See paragraphs B39–B42 for the basis for the Board's conclusions.)

The nature of the suggested disclosure would necessitate a significant effort to undertake a review of all contracts in order to establish those for which the disclosures apply and then to meet the proposed requirements. We believe that many entities would have difficulty in completing this exercise within the proposed timeframe.

Disclosure of Notional Amounts

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? (See paragraphs B21–B25 for the basis for the Board's conclusions.)

We agree that notional amounts provide an indication of the magnitude of the risks being managed or taken on and should be disclosed, although we see no added benefits in splitting these disclosures into separate classes, depending on whether the derivative fair value is an asset or a liability (ED paragraph 44C.b).

Paragraph B27 notes that "Presenting notional amounts and fair value amounts on a gross basis would better indicate the potential future effect that changes in the underlying would have on the value of the derivative." However one derivative contract might be an asset at period-end whereas another — identical save for having been entered into a few days earlier — could be a liability, the difference reflecting only market movement in the intervening period. Whilst the ED would require disclosure of these contracts in separate classes, they would create the same financial risk exposure to future changes in the underlying.

We would expect that compiling and reviewing the information in the format and detail proposed would require additional resources and the resolution of possible system constraints. We would also expect that (as mentioned also our response to Issue 11) some entities would not be able to set up the necessary robust processes within the implementation timeframe proposed.

We therefore suggest reviewing the usefulness of analysing notional amount disclosures by fair value on a gross basis, (particularly for contracts whose offset is permitted in the Statement of Financial Position).

Issue 6: This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the reporting period but no longer exist at the end of the reporting period.

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?

We believe that notional amounts are most useful as an indication of the risk exposures arising from open, period-end positions and agree that amounts relating to derivatives no longer existing at the end of the reporting period should not be disclosed.

Disclosure of Gains and Losses on Hedged Items

Issue 7: This proposed Statement would require disclosure of the gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people.

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? (See paragraphs B33-B35 for the basis for the Board's conclusions.)

We agree that disclosure of "hedged items" should be restricted to those satisfying the existing FAS 133 hedge definitions. We believe that the benefits of introducing a new "economic hedge" category would be outweighed by the additional complexity arising from new rules and guidance needed to ensure consistent application. Entities should nevertheless make it clear in their qualitative disclosures (ED paragraph 44) how derivatives within the "non-hedge" category are being used.

Disclosure of Overall Risk Profile

Issue 8: Under this proposed Statement, quantitative information about nonderivative instruments used as part of an entity's overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments.

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?

Whilst we appreciate that the scope of a project must be limited if it is to remain short-term, we share the concern (ED paragraph B8) that the consequent limited disclosures may in some cases be misleading.

We particularly support the last two sentences of paragraph 44, which encourage entities to provide additional qualitative disclosures in the context of their overall risk strategy, if this might be more meaningful.

Examples Illustrating Application of This Proposed Statement

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?

We believe that the examples are helpful and that paragraph A1 makes it clear that they are not prescriptive. We suggest that it would be worthwhile to extend paragraph A15 to cover disclosures for other types of risk, such as price risk.

Amendments Considered but Not Made

Issue 10: The Board considered but decided against requiring additional disclosures as described in paragraphs B55–B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception.

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

We agree with the Board's decision, with the exception already mentioned (Issue 8) that further detail on risk profiles should be encouraged if the narrower disclosures specifically required by the ED would be misleading.

Effective Date

Issue 11: The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required.

Does the effective date provide sufficient time for implementation? (See paragraphs B50-B53 for the basis for the Board's conclusions.)

The new disclosures would represent a significant change and we would expect that some entities would not be able to set up the necessary robust processes within the implementation timeframe proposed. We therefore suggest a later implementation date, especially should the final Statement not be issued as planned by June 30th, 2007.

Yours sincerely,



Bob Deere

Vice President Accounting and Reporting