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Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 1510-100

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board's ("FASB" or the "Board") proposed Statement, *Disclosures about Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133*, ("ED"). We generally agree with the ED because the proposed expanded disclosures would improve the transparency and understanding of financial reporting as it relates to derivative instruments and hedging activities. However, we believe that the ED should be modified in the following areas:

Requirements for Interim Reporting Periods

Financial statements for interim reporting periods typically do not include disclosures that are as comprehensive as those provided in annual financial statements. It is generally assumed that the user of interim financial reports has access to, and that interim statements are read in conjunction with, the entity's most recent annual financial statements. Therefore, disclosures in the interim reports are often limited to only the most critical details for an item and an update to the most recent annual financial statement disclosures to the extent there have been significant changes.

The ED proposes that all of the disclosures be provided for both annual and interim reporting periods for which a statement of financial position and statement of financial performance are presented. We believe that in the context of interim reporting, the proposed disclosures may be burdensome and, in some cases, duplicative of prior annual period disclosures. For some companies, compliance with such interim disclosure requirements may be very difficult given the Security and Exchange Commission's (SEC's) accelerated filing regulations.

Furthermore, some of the ED's interim disclosure requirements appear excessive when compared to the interim disclosure requirements for other financial statement items. For example, the extensive disclosures related to credit risk for derivatives, as proposed in paragraph 44E of the ED, are far greater than what is required on an interim basis for an entity's trade receivables. Why should the derivative disclosure requirements exceed those for trade receivables on an interim basis?

We believe that the Board should reconsider the interim disclosures proposed in the ED. We recommend that the Board require only the most critical information regarding derivatives on an interim basis as well as an update to the annual disclosures to the extent there have been significant changes from previously issued financial statements.

Disclosures Related to Contingent Features

Paragraph 44D of the ED prescribes certain disclosures for derivative instruments that have contingent features. Footnote 12a4 provides an exception from the required disclosures for certain default provisions. Footnote 12a4 states:

Default provisions included in derivative instruments that require the payment of a penalty for nonperformance and do not have a greater than remote chance of occurring, as *remote* is defined in FASB Statement No. 5, *Accounting for Contingencies*, are not considered contingent features for purposes of this disclosure.

We agree with the above-described exception because it appropriately excludes triggering events that have only a remote chance of occurrence. We believe, however, that this exception should not be limited to certain "default provisions" but should be expanded to apply to any situation in which there is only a remote chance that a contingent feature will be triggered. Contingent features are present in derivative instruments in many forms and have a variety of triggering events. For example, a contingent feature may trigger upon the occurrence of a market event or a change in credit condition that has only a remote chance of occurrence.

We do not believe that contingent feature disclosures are warranted when conditions triggering their exercise have only a remote chance of occurrence. Requiring companies to identify such features in all derivative instruments and to compile the information required by paragraph 44D of the ED would not, in our view, meet the cost/benefit test. Therefore, we believe that the FASB should limit the required disclosures to only those contingent features with a triggering event that has at least a reasonably possible chance of occurrence.

We believe that requiring disclosures about contingent features that are at least reasonably possible (and scoping out situations where there is only a remote chance of occurrence) would be consistent with FASB Statement No. 5, *Accounting for Contingencies* (FAS 5). Such an approach would also be

consistent with the disclosure criteria in SOP 94-6 which are similarly based on the concept of "more than remote".

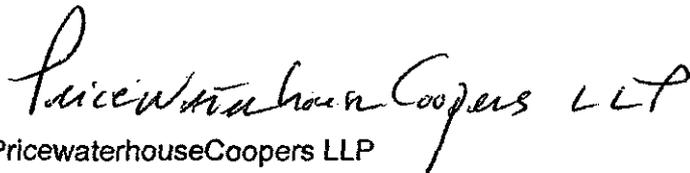
Finally, collateral obligations pursuant to contingent features may not be subject to limitation. Many such features are settled based on changes in the market or a formula that is not limited in terms of its measurement. The Board should consider modifying the disclosure requirements for contingent features to require only descriptive disclosure for these features.

Other Comments

Our responses to the specific issues on which the Board is seeking comments are included in the Attachment to this letter.

If you have any questions about our comments, please contact John Lawton (973-236-7449), John Althoff (973-236-7288), or Tom McGuinness (973-236-4034).

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink and is positioned above the printed name of the firm.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP's responses to specific issues raised in
the FASB's Exposure Draft,**

***Disclosures about Derivative Instruments and Hedging Activities -- an
amendment of***

FASB Statement No. 133

Scope

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.)

Response: We 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. In our view, there are many issues related to presentation and classification of derivatives and hedging that are equally important and need to be addressed by the Board. However, we agree that it is preferable that the Board address these issues in its current project on financial statement presentation.

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?

Response: We believe that Statement 133, including its disclosure requirements, should apply to both public and private entities. We believe that the ED's proposed disclosures are relevant to users of financial statements of both public and private entities.

**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.)

Response: We agree that disclosures provided in a tabular format are generally more concise and user-friendly, particularly for entities that have a number of derivative instruments. However, a tabular format may not be necessary for an entity that uses only a couple of derivative instruments (e.g., a small, private entity). The Board should consider permitting some flexibility in display format for the disclosures to accommodate circumstances where an entity’s derivative activities are very limited and an alternative format effectively conveys the relevant information.

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.)

Response: We disagree with the above-described disclosure requirements related to contingent features -- particularly with respect to situations in which there is only a remote chance of triggering the contingency and the quantitative disclosures in items (b) and (c) above. Please refer to our detailed comments in the cover letter.

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.)

Response: We generally agree with the requirement to disclose notional amounts of derivative instruments because notional amounts provide insight into (and a context for) the overall volume of derivative use and into the magnitude of risks being managed. In certain situations, however, the

disclosures related to notional amounts may not be representative of the underlying risk management activities and, therefore, could be misleading. For example, for a major trader in derivative instruments, gross notional amounts could be misleading because the entity manages risk on a net basis. Similarly, if an entity enters into five, separate one-year swaps to hedge a 5-year hedged item, the total gross notional amount of the swap may be misleading as to the magnitude of risk being managed when compared to another entity that enters into a single 5-year swap to hedge a similar exposure. We believe that the Board should acknowledge that in some cases, the disclosures about notional amounts could be misleading and encourage entities to provide additional descriptive disclosures to provide the appropriate context for the required disclosures.

With respect to leverage factors, we believe that the additional disclosure about the estimated magnitude should be required only for *significant* leverage factors. We believe that in order to be cost effective, any leverage factor that has only a minor potential impact should not trigger the proposed disclosure requirement about estimated magnitude.

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?

Response: We agree with the proposed disclosures because a disclosure of the notional amounts of derivative instruments that are no longer outstanding at the end of a reporting period is not meaningful or useful information to users of financial statements. We also agree that disclosures of gains and losses should not be limited to period-end derivative instrument positions but all of the derivative instruments that the reporting entity held during the reporting period. The total gains and losses provide a more complete picture of an entity's extent of derivative instruments activities than those related only to derivative instruments outstanding at the end of a reporting period.

We note, however, that in certain situations (such as a large trading activity that includes both derivative and nonderivative instruments), segregating the derivatives-related gains and losses from the total trading gains and losses would be difficult and may not meet the cost/benefit test. The trader, in this example, generally manages risk on a net basis and the source of the gain or loss (i.e., derivative vs. nonderivative) is not relevant for either the preparer or the user of financial statements.

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.)

Response: We agree with the proposal to limit the disclosures about "hedged items" to those that qualify for, and are designated as, hedged items under Statement 133 because "economic hedging" can be defined in many ways and could include items that are not comparable among entities in the same industry. Including a wide variety of "economically hedged items" in the proposed disclosures could be confusing to the users and would reduce the importance of "qualifying criteria" in Statement 133. However, we believe that the Board should encourage entities to include information about economic hedging when it would help readers to better understand how entities are managing overall risk.

We also agree that these disclosures required under Statement 133 should not include items for which an entity elects the fair value option under FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 has its own disclosure requirements to assist users in assessing the impact of a reporting entity's "election" to use fair value for related financial assets and financial liabilities.

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?

Response: We agree that disclosures related to an entity's overall risk management strategy should be encouraged but not required. This proposed Statement's scope is limited to derivative financial instruments subject to Statement 133 and the related hedged items. A requirement to include information about non-derivative instruments introduces definitional issues and would be beyond the scope of this project.

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?

Response: We believe that examples are generally helpful to both preparers and users of financial statements. Paragraph A1 of Appendix A includes appropriate cautionary language to explain the purpose of these examples. Accordingly, we do not believe that the examples would be misconstrued as a "prescribed method" or the only way to comply with the Statement's disclosure requirements.

We recognize that it is not possible for the FASB to provide examples for a wide variety of scenarios; however, we recommend that the Board consider adding a more comprehensive set of examples to help preparers and promote consistency in practice. For example, a tabular presentation to show derivative instruments used to hedge overall price risk may illustrate a situation in which an entity is exposed to price risk for multiple commodities (such as a utility using electricity, gas, coal, and oil).

We believe that Example 3 in Paragraph A16 may not adequately illustrate compliance with the requirements of paragraph 44D of the ED. This example describes only one contingent feature relating to maintaining an investment grade credit rating. The example includes disclosure of a total fair value amount of \$xx million for all derivative instruments with contingent features. It is not clear whether this fair value amount relates to (1) only the single contingent feature regarding investment grade credit rating, or (2) all

contingent features that exist but are not described in this example. It is also not clear whether the fair value amount is in an asset position or a liability position.

An editorial comment about Example 1: The second sentence in paragraph A2 states: "The example below illustrates *only* the information relating to underlying risks that is required by this Statement" (emphasis added). However, the second sentence in the illustrative disclosure mentions risks (such as import or export restrictions, changes in global demand, competitive products, and technologies, etc.) that, in our view, are not required to be disclosed by the ED. We recommend that the introductory statement in paragraph A2 be revised to delete the word "only."

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?

Response: We agree with the Board's decision to not require the following disclosures:

- An entity's overall risk management profile: see our response to Issue 8 above for why we believe that this disclosure should be encouraged but not required.
- Methods for assessing hedge effectiveness: We believe that disclosures related to the use of the shortcut method and assumption of zero ineffectiveness would not be useful and unnecessarily lengthen disclosures currently required by generally accepted accounting principles (GAAP). We believe that disclosing instances in which GAAP are properly applied would not result in useful information.
- Situations in which an entity could have elected the normal purchases and sales exception: Statement 133 provides for a number of scope exceptions for instruments that meet the definition of a derivative instrument in addition to the exception related to normal purchases and normal sales. We agree that singling out this particular exception for additional disclosures is inappropriate and would not result in improved financial reporting.

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.)

Response: We believe that a conclusion about whether the proposed effective date of this Statement provides preparers with adequate time to comply with the requirements depends on when the final standard is issued. If the final standard is issued after June 2007, we recommend that the implementation date be deferred until 2008.