OVERVIEW

1. The comment period for the proposed FSP ended on June 30, 2008. As of July 10, 2008, comment letters had been received from 15 respondents. The following provides a summary of the types of respondents.

<table>
<thead>
<tr>
<th>Type of Respondent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparer</td>
<td>6</td>
</tr>
<tr>
<td>User</td>
<td>2</td>
</tr>
<tr>
<td>Accounting Firm</td>
<td>3</td>
</tr>
<tr>
<td>Industry Organization</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

OVERALL POSITION

2. A majority of respondents (13 out of 15) expressed support for improving disclosures about credit derivatives. However, several respondents noted that the scope of the proposed FSP would benefit from clarification. Many respondents expressed concern with one or more of the proposed disclosure requirements. Further, most respondents requested that the effective date be changed to align with the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. These and other issues raised by respondents are summarized below.
SIGNIFICANT ISSUES

Scope

Piecemeal Disclosure Guidance

3. Although most respondents agree with the Board’s decision to issue this FSP, some expressed concern about the “piecemeal” approach the Board has employed in issuing disclosures for financial instruments. Deloitte (CL #8) commented that such an approach “does not produce a clear and complete set of disclosures and increases the burden on users and preparers of financial statements and auditors.” ISDA (CL #4) noted that piecemeal disclosures place a burden on preparers “who are required to repeatedly implement incremental disclosures, and to educate … users” on how these disclosures do not provide a holistic view of the entity’s risk exposure. Goldman Sachs (CL #14) commented that “rule-making in this way adds…complexity…and could lead to inconsistent disclosures.” Deloitte, Goldman Sachs, ISDA, NYSSCPA, and Huron support “a more comprehensive project on financial statement disclosures” (CL #8), which also could “address convergence with IFRS” (CL #4).

Clarification of Scope

4. The proposed FSP stated that its provisions apply to credit derivatives within the scope of Statement 133. It then provided a general description of what constitutes a credit derivative along with examples of common credit derivatives.

5. Many respondents expressed concern that the FSP’s scope was unclear and, as a result, may lead to inconsistent application in practice. Specifically, those respondents were concerned that the FSP’s definition of credit derivative “may create confusion about whether items that are not typically considered credit derivatives” are within the scope of the FSP (PwC--CL #10). They pointed out that “the underlying of many derivative financial instruments incorporates some degree of credit risk; however, in many cases, this risk is secondary” (ISDA--CL #4). To alleviate this concern, respondents proposed modifying the definition to
highlight that the primary underlying of the derivative must be credit risk for the instrument to fall within the scope of the FSP.

6. Two respondents asked the Board to clarify whether the proposed FSP would be applicable to embedded derivatives, both those that are and are not bifurcated from a host instrument. Also, two respondents noted that the proposed amendments to FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, will result in “an entity [not being] required to provide guarantee disclosures for derivatives that are not credit derivatives but nevertheless have characteristics of a guarantee” (Deloitte--CL #8).

### Proposed Disclosure Requirements

7. Many respondents raised concerns about the disclosure of the current status of the payment/performance risk of the guarantee or credit derivative. Respondents also had several comments on the other disclosure requirements.

#### Payment/Performance Risk

8. The proposed FSP added a new disclosure requirement about the current status of the payment/performance risk of guarantees and credit derivatives within its scope. As an example, the current status of the payment/performance risk for a credit derivative could be indicated by either current external credit ratings of the underlying, when available, or current internal categories/groupings based on the manner in which the seller manages its risk.

9. Some respondents suggested removal of this disclosure requirement. KeyCorp (CL#3) noted that users will have difficulty interpreting how this disclosure links to the disclosure of maximum potential amount of future payments. Further, KeyCorp does not believe the benefits of such a disclosure would outweigh its cost. Freddie Mac (CL#7) believed the disclosure would not be operational for guarantees—they were unaware of “any guarantees that are within the scope of Interpretation 45” where external credit ratings or internal categories would be
Given that guarantees within the scope of Interpretation 45 are almost always a component of a securitization transaction the performance of the underlying guaranteed collateral is already disclosed in accordance with the requirements of FASB Statement No. 140, Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities.

As a result, Freddie Mac believes the payment/performance risk disclosure would be redundant and therefore is unnecessary.

10. Huron (CL #13) did not believe the disclosure would provide useful information to users. Rather, Huron believed “information about a company’s expectations of loss emergence would be more relevant than disclosures about the status of the underlying…[because it would] provide investors with management’s views of the risks inherent in the underlying obligations.”

11. Fidelity (CL #15) believed “the provisions within … [Statement 161] relating to concentration of credit risk” and the existing disclosure requirements for mutual funds will provide for the appropriate level of context around payment/performance risk” and therefore the proposed disclosure would be unnecessary. If the Board decided to keep the disclosure requirement, Fidelity requested “further guidance with respect to what credit rating to include for a credit default basket.”

12. Others sought alternative indicators of payment/performance risk. Credit Suisse (CL #6) viewed the requirement as being “overly prescriptive” and urged the Board to “accept other indicators.” ISDA (CL #4) commented that:

   Disclosure of a current credit rating as the indicator of current payment/performance risk of guarantees for which credit risk is not the primary underlying is not relevant…. [Q]ualitative information based on the nature/terms of the arrangement and the probability of payment under the contract [would be] a better indicator of payment/performance risk for these types of guarantees.

13. Deloitte (CL #8) asked whether entities should give greater weight to externally obtained information. They questioned whether entities providing information
from internal sources “should [disclose] that fact and the entity’s rationale” for doing so. MBIA (CL #12) noted that “it would be impossible to obtain ratings information for certain instruments, such as those linked to pooled reference entities.” They also commented that “information on credit ratings alone is not useful in portraying credit exposure…. [C]redit ratings are laggard and not always consistent over time.” MBIA felt that “additional disclosures including levels of subordination or attachment points are integral in providing a more accurate picture of … credit exposure.”

14. The Investment Company Institute (CL #11) suggested other ways to provide users with an understanding of payment/performance risk and encouraged the Board to provide flexibility in this regard. They noted that by disclosing (a) the cost, (b) the credit spread, (c) the notional value, (d) the term, (e) the reference entity, and (f) the current fair value of the derivative or guarantee, a user would have sufficient information “to assess the likelihood that the seller would be required to perform.” Reasons for communicating payment/performance risk in such a manner, rather than providing external credit ratings, include (a) external credit ratings often lag the market, (b) an entity may prefer not to disclose its own credit analysis of a unrated reference entity, as the information may be viewed as proprietary, (c) it is unclear what form of disclosure would be required where the reference entity is a basket or index comprised of issuers of differing credit quality, and (d) a disclosure requirement of external credit ratings for reference entities would place undue emphasis on the credit risk associated with CDS, while similar disclosure is not required for individual security holdings in fixed-income securities investment.

15. New York State Society of Certified Public Accountants (NYSSCPA, CL #5) is concerned that “the current market for derivatives does not always identify the counterparty which is necessary to assess the payment/performance risk, thereby creating a situation which would make obtaining such information onerous.”
Questions/Concerns about Certain Other Specific Aspects of the Proposed Disclosures

16. Some respondents expressed concern or requested clarifications about certain other specific aspects of the proposed disclosures. They are summarized below under subcategories.

Approximate Term

17. The proposed FSP extended Interpretation 45’s disclosure of a guarantee’s approximate term to credit derivative contracts. Deloitte (CL #8) commented that disclosure of approximate term “is difficult to understand in the context of derivative instruments that have stated contractual terms.” They questioned whether the FSP required an entity to disclose “the contractual terms or its estimate of when the credit derivative or guarantee may be required to be settled because of a credit event.” They also asked for guidance on how this disclosure should be made for a group of similar credit derivatives.

Potential Recoveries

18. The proposed FSP extended Interpretation 45’s disclosure of recourse provisions and held collateral to credit derivative contracts. Credit Suisse (CL #6) expressed concern that disclosure of potential recovery amounts “is not readily operational”—because these amounts are not readily estimable—and, therefore, asked that the Board “provide more guidance on the types of qualitative information that would best inform [users] of potential recoveries.”

Maximum Future Payments

19. The proposed FSP extended Interpretation 45’s disclosure of the maximum potential amount of future payments (undiscounted) that could be required under a guarantee to credit derivative contracts. Several respondents had concerns about this disclosure. Although recognizing that such a disclosure “provides insight into the financial risks that a seller is exposed to,” PwC (CL # 10) noted that, in certain circumstances, such a disclosure may be misleading.
We believe that the Board should acknowledge that in some cases, the disclosures for maximum potential future payments could be misleading without additional contextual information. We recommend that the Board consider requiring entities to provide additional descriptive disclosures to set the appropriate context for the disclosure of maximum potential future payments.

20. Huron (CL #13) commented that disclosure of “notional amounts will [not] provide useful information to most investors because the risk to which a seller of credit derivatives is exposed is often significantly different than the notional amount of the contract.” Further, Huron noted that the Board decided against requiring entities to disclose the notional amounts of their derivatives in Statement 161. Huron suggests that the Board wait and “assess the quality of the [Statement 161] disclosures…before deciding to impose incremental disclosures.”

21. Fidelity (CL #15) commented that “the requirements to present both the maximum future payments and the aggregate amounts needed to settle each credit default swap as of the report date [a Statement 161 disclosure] will cause confusion.”

Effective Date

22. The proposed FSP indicates that the disclosure requirements would be effective for fiscal years, and interim periods therein, ending after November 15, 2008. Most respondents requested that the effective date be changed to align with the effective date of Statement 161. Other respondents suggested that it would not be difficult to comply with the proposed requirements by the proposed effective date.

23. A few respondents indicated that it should not be difficult to comply with the proposed disclosure requirements. R.G. Associates (CL #1) commented that “preparers should have this information readily available…as it relates to basic management of these kinds of derivatives.” MBIA (CL #12) noted that they “already disclose some of the information that is being requested” and, therefore, think they “will be able to comply with the requirements of the FSP by the proposed effective date.” Ernst & Young (CL #9) noted that certain provisions of
the FSP “should help speed adoption.” Fitch (CL #2) commented that “these disclosures should be included in the financial statements as soon as practical.”

24. On the other hand, several other respondents commented that the Board should delay the effective date of the FSP for several reasons. The Investment Company Institute (CL #11) indicated that “certain of the proposed disclosures may not currently be captured or maintained in … financial reporting systems.” Several respondents commented that the effective date “would not provide sufficient time” to comply with the disclosure requirements. ISDA (CL #4) and Goldman Sachs (CL #14) listed various accounting pronouncements that would become effective around the same time as the proposed FSP and noted that the “interpretation and implementation of these issued and proposed accounting standards create significant time and resource cost to … preparers.”

25. All respondents in favor of postponing the proposed FSP’s effective date recommended that the effective date of the FSP match that of Statement 161—fiscal years beginning after November 15, 2008. Such a change would “provide adequate time to plan for and implement the proposed disclosures,” “reduce the cost to preparers without significantly delaying the effective date,” and result in “implementation efficiencies [when] updating…SOX processes, financial reporting, and other implementation activities.” The following comment made by ISDA (CL #4) seems to capture the sentiment of those requesting that the FSP’s effective date match that of Statement 161:

We strongly recommend the FASB to change the effective date…such that it is coincident with the effective date of [Statement] 161…. We believe this change in effective date is warranted due to the overlapping scope of the Proposed FSP and [Statement] 161.
OTHER ISSUES

Alternatives

Statement 133

26. NYSSCPA (CL #5) was concerned that Statement 133 “has been and is expected to be modified by so many pronouncements that the original statement itself is ineffective.” They commented that “the Board should consider issuing an entirely new pronouncement to address derivative instruments and hedging activities.”

Objection to the Issuance of this FSP

27. Huron (CL #13) did not support the issuance of this FSP. They do not believe the proposed disclosures represent an improvement over disclosures required currently. Instead, certain of the proposed disclosures appear to be the same as, or similar to, disclosures that will be required when Statement 161 becomes effective, while other disclosures appear to overlap with the disclosures required by FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments.

Other General Comments

Further Disclosures

28. Fitch (CL#2) noted that its analysts would benefit from “understand[ing] the nature of credit derivative exposure by type of contract…as well as what asset class [the contracts] are referencing.” Fitch also suggested “disclosure about the overall percentage of credit risks that are hedged in order to better understand the overall risk management strategy of the issuer.

29. KeyCorp (CL #3) noted that “disclosure of only the instances where an entity is the seller of credit derivatives provides a one-sided view of overall exposure to these instruments…. To provide one-sided information about credit derivatives is misleading to the financial statement user and could lead to a misinterpretation of
the entity’s overall risk and exposure to such instruments.” They recommended that “the final guidance include disclosure requirements to cover both the buyers and sellers of credit derivatives.”

30. Deloitte (CL #8) noted that the effect of purchased credit protection is an additional new requirement. They suggested that the Board “consider whether a similar requirement should be included in the amendments to Interpretation 45.”

31. Deloitte (CL #8) commented that the Board should consider providing disclosure examples for common types of guarantees (for example, a performance guarantee or a tax indemnification).

32. Huron (CL#13) suggested “qualitative disclosures when [a seller of credit derivatives] believes the fair value of a credit derivative is not representative of the expected losses.” Those disclosures “would be particularly helpful when reasons other than changes in expected future losses (such as changes in market liquidity) are the primary causes of a decline in fair value.”

Other

33. NYSSCPA (CL#5) was concerned that the length of comment periods seems short. They hoped that “the timing of a release and timetable for responses to a particular FSP continues to get proper consideration by the Board.”

34. ISDA (CL#4) urged the FASB to consider establishing a temporary moratorium for the effective dates of any additional proposed accounting standards to be issued during the remainder of 2008 so that companies have a sufficient amount of time to prepare for the adoption of both recently issued and proposed accounting standards.

35. Deloitte (CL#8) suggested adding a comprehensive example to illustrate certain guidance in the proposed FSP, such as the “groups of similar credit derivatives.” They believed that readers would benefit most from an example that illustrates the disclosures that would be provided by an entity with a large portfolio of credit
derivatives.

36. The Investment Company Institute (CL #11) noted that “financial statement disclosures should not unduly emphasize one financial instrument (CDS) or one form of risk (credit) in relation to other instruments and risks associated with [a] fund’s investment portfolio.”

37. Fidelity (CL #15) noted that the FSP “would call for different presentation and disclosure requirements for credit derivatives than long bonds” in situations where a credit derivative is used as a synthetic long position in the referenced entity.