* 1 5 1 0 - 1 0 0 4

Via email to director@fasb.org

LETTER OF COMMENT NO. 49

March 9, 2007

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: File Reference No. 1510-100 Proposed Statement of Financial Accounting Standards, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133

Dear Sirs and Madams,

The Investors Technical Advisory Committee ("ITAC") is pleased to comment on the December 8, 2006 Exposure Draft of the Proposed Statement of Financial Accounting Standards, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. As you are aware, the purpose of the ITAC is to provide technical accounting advice, from the investors' perspective, to the Financial Accounting Standards Board ("FASB" or "Board") and the FASB staff. This comment letter is consistent with that purpose and represents the views of the ITAC and not necessarily the views of its members or the organizations in which they are employed.

As knowledgeable and diverse users of financial accounting and reporting, we support the issuance of the proposed Statement as an important interim step to providing more useful and transparent information about derivative instruments and hedging activities. Moreover, given the complexity of this area of accounting, the opacity of the underlying reporting, and the potential for the use of derivatives to meaningfully affect the risk profile of an entity, we expect that the benefits to investors from the proposed Statement's enhanced transparency will exceed the costs of implementing the proposed disclosure requirements. We, however, offer the following comments in response to each of the issues identified in the proposed Statement's notice for recipients:

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 support the Board's conclusion that prescriptive guidance about how derivative instruments should be presented and classified should be excluded from the scope of this project. We believe that the current approach to financial statement presentation and classification of derivative instruments and activities should be permitted to continue for purposes of the proposed Statement. It is our current belief that robust disclosures about those instruments and activities better serve investors and enhance transparency than narrowly-defined rules of financial statement geography.

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?

We believe that the proposed Statement should apply to both public and private entities. Investors and other users of financial statements would benefit from a common standard that improves information about the effect that derivative activities have on an entity's overall financial position, results of operations, and cash flows. Moreover, the difference between public and private companies, while clear, is also often fleeting. Public companies become private with increasing regularity and the reverse is also true. We believe that the truly small, private company will not often be faced with exceedingly lengthy or time consuming disclosures under the proposed Statement, and if such disclosures would be required by the proposed Statement, users of those financial statements would likely benefit.

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 believe the tabular format presented in the proposed Statement would be helpful to investors and other users of financial reports. We are especially supportive of the requirement to disclose the location that the derivative instruments and related gains and losses are reported in the balance sheet and income statement. Although we are not preparers of financial statements, we find it difficult to understand how the information to be required by the proposed Statement is not presently (1) disclosed in most entities' existing financial reports, or (2) compiled and used by most entities for risk management or other purposes.

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.)

Consistent with our response to Issue 3 above, we find it difficult to understand how the information to be required for derivatives positions with contingent features would not readily be available to any entity that has responsibly entered into those positions. We note that the proposed Statement excludes from the disclosure requirements "[d]efault 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" We, therefore, do not expect that compiling the information required by the proposed disclosures would result in the incurrence of significant incremental costs for most entities.

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 the proposed Statement should require the disclosure of notional amounts. Although there are limitations to the usefulness of those disclosures, we agree that the disclosures would assist investors and other users in better assessing the overall pervasiveness of the use of derivatives and the magnitude of the risks being managed. In addition, a comparison of the magnitudes of gains and losses on derivatives to notional amounts can provide useful information (albeit imperfect) as to the degree to which underlying changes in market rates or prices have caused changes in derivatives' fair values.

In addition, we agree with the proposed disclosure of the existence of leverage factors and the estimated magnitude of those features because we believe such disclosure is important to prevent the notional amounts from potentially being misleading. For similar reasons, we would also support disclosure about the existence and magnitude of any netting arrangements or transactions that might mitigate the risks being managed.

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 agree that it is useful to have information about the gains and losses on all derivative instruments that existed during the reporting period. Such information would enhance comparability among entities by permitting users the ability to compare all gains and losses associated with all derivative activities during the period and not just those associated with derivative positions that remain open at the end of the reporting period.

We also agree that the aggregate notional amounts of derivatives that no longer exist at the end of the reporting period should not be required to be disclosed. We can not envision why those amounts would be particularly useful to investors. We, however, recommend requiring disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period in those limited circumstances when the end of period amounts are significantly different than the average aggregate notional amounts outstanding during the period. This additional disclosure would be important information to investors and other users about potential end of period "window dressing" transactions.

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 do not agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables. Disclosure of such information would be consistent with at least two of the three objectives of the proposed Statement: (1) "How and why and entity uses derivatives," and (2) "How derivative instruments affect an entity's financial position, results of operations, and cash flows." Moreover, we believe the information would provide investors a more complete (albeit imperfect) picture of an entity's derivative activity and would encourage the entity to more clearly articulate the various risks the entity is intending to manage with its derivative positions.

We do not share the Board's concerns about the "differing views of what constitutes a hedging relationship in cases that do not qualify for hedge accounting under Statement 133" We note that that concern would appear to be easily resolved by requiring an entity to identify and disclose what they believe constitutes a hedging relationship for their derivative positions.

For similar reasons, we believe the tables should 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. The issuance of Statement 159 and the likely resulting increase in hedging transactions outside the requirements of Statement 133 increases the need for including this information in the tables.

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 the proposed Statement?

We agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 might be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity. As, however, the Board is well aware, few entities provide information that is only encouraged by FASB standards.

We are concerned that if the proposed Statement only requires derivatives and related hedged items to be disclosed and discussed by an entity, investors may be receiving information about only a small part of an entity's risk management activities without a broader understanding of what other risk management activities may be occurring and, perhaps most importantly, what other risks exist and how, if at all, they are being managed. We believe that the proposed Statement should have included the following fourth objective, which was initially considered but rejected by the Board:

. . . [D]isclosures should help users of financial statements understand an entity's overall risk exposures and the strategy for managing those risks.

We, however, understand and appreciate the Board's concern that including the fourth objective as part of the proposed Statement might have unduly broadened the scope of the project and prevented timely improvements to the transparency of derivative instruments and related hedged

items that many investors have called for. With that concern in mind, we would propose requiring only the qualitative disclosures currently encouraged by paragraph 44 of Statement 133 to be provided as part of the required tabular disclosure. This additional disclosure would assist investors and other users to better understand how an entity's use of derivatives is linked to the entity's overall risk management profile without appearing to (1) unduly broaden the scope of the project, or (2) require an entity to incur significant incremental costs.

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 agree that the examples are 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. We understand that examples contained in FASB standards are often viewed as a prescribed method to comply with the requirements of the proposed Statement. Perhaps paragraph A1 of the proposed Statement can be revised to make explicit that the disclosures required by the Statement should take whatever form an entity believes would be most useful to the users of their financial statements as long as all of the objectives of the Statement are met.

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 disagree with two of the Board's decisions not to require additional disclosures as described in paragraphs B55-B63. First, we disagree with the Board's decision not to require disclosure of information on an entity's overall risk management profile. As indicated in response to Issue 8 above, we believe, for the reasons stated, that the Board should require qualitative information about how the derivatives included in the disclosure tables relate to the overall context of an entity's risk management profile.

Second, we disagree with the Board's decision not to require information about those instances in which an entity has assumed zero ineffectiveness. We particularly disagree with those Board members who rejected this proposed disclosure, at least in part, because it "might reflect negatively on entities that appropriately use the shortcut method as well as other methods that assume zero ineffectiveness." We do not believe that that is a legitimate basis for rejecting a disclosure that many investors would find useful.

Perfect hedges or zero ineffectiveness exists only in theory. When accounting standards permit an entity to report information inconsistent with the underlying economics of the entity's transactions, investors deserve to have some information about those transactions.

We believe that requiring those derivatives and related hedged items in which an entity has assumed zero ineffectiveness to be disaggregated from the other transactions in the disclosure tables would be entirely consistent with at least two of the three stated objectives of the proposed Statement: (1) "How derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations," and (2) "How derivative instruments affect an entity's financial position, results of operations, and cash flows." With respect to the second objective, we agree with those Board members who believe that a "benefit of that disclosure is that it would highlight instances in which an election under Statement 133 has resulted in zero income statement volatility as compared to the long-haul method." We also agree with those Board members who believe that the "disclosure could be provided at little cost to the preparer."

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.)

We believe the effective date does provide sufficient time for implementation. We agree with the Board that entities should not need to make major enhancements to systems to conform to the new disclosure requirements, including the relatively modest additional disclosures that we support and have discussed in response to Issues 5, 6, 7, 8, and 10 above.

We appreciate your consideration of our comments. Should you have any questions or would like to further discuss these comments in more detail, please contact me at 212.261.7081 or jeff@cii.org.

Sincerely,

Jeff Mahoney Co-Chair

Investors Technical Advisory Committee

of Makeney