

August 3, 2006

Governmental Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

By email: director@gasb.org

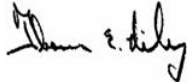
**Re: Preliminary Views – Accounting and Financial Reporting for Derivatives
(Project No. 26-4P)**

To Director of Research and Technical Activities:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the provisions proposed in the above captioned GASB Preliminary Views. NYSSCPA thanks GASB for the opportunity to comment on its preliminary views document.

The NYSSCPA Government Accounting and Auditing Committee deliberated the preliminary views document and prepared the attached comments. If you would like additional discussion with the committee, please contact Warren Ruppel, chair of the Government Accounting and Auditing Committee, at (212) 503-6391, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Thomas E. Riley
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS TO GOVERNMENTAL ACCOUNTING STANDARDS BOARD ON
PRELIMINARY VIEWS – ACCOUNTING AND FINANCIAL REPORTING
FOR DERIVATIVES**

August 3, 2006

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Warren Ruppel

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NYSSCPA Staff

Ernest J. Markezin

New York State Society of Certified Public Accountants

Comments on Preliminary Views Document

Accounting and Financial Reporting for Derivatives

August 3, 2006

General Comments

We agree that the Board should address the significant void in accounting and financial reporting principles for governments with respect to derivatives. We are generally supportive of fair value measurement and reporting and the concept of a hedging approach outlined in the preliminary views document for government-wide financial statements and the financial statements of proprietary funds. However, we do not agree with reporting derivatives on the balance sheets of governmental funds, as discussed in the specific comment below. Our disagreement with the one specific issue below should not be interpreted by the Board as our agreement with all or any of the other components of the Preliminary Views document.

Specific Comment

The accounting and financial reporting requirements as outlined in the Preliminary Views document would be applied to both government-wide financial statements and fund financial statements. This results in derivatives being reported on the balance sheets of governmental funds.

We disagree with reporting derivatives on the balance sheets of governmental funds. We do not believe that a derivative financial instrument is a current financial resource, which is the measurement focus used by governmental funds. A positive (“debit”) fair value of a derivative does not represent a financial resource that is available for appropriation and expenditure. A negative (“credit”) fair value of a derivative does not represent a liability that is due to be paid by the governmental fund. In addition, changes in the fair values of derivatives do not represent changes in current financial resources or changes in liabilities due to be paid.

Interest rate swaps are one of the more common derivatives used by governments. The proposed accounting for governmental funds would result in the derivative being essentially the only item related to long-term debt that would be recorded on the balance sheet of a governmental fund. We do not believe the Board has demonstrated in the Preliminary Views document any reason for this proposed handling of a derivative such as an interest rate swap from other long-term debt transactions.

Further, the inclusion of any type of hedge accounting for derivatives in an ultimate financial accounting standard contradicts a derivative instrument being measured and reported as a current financial resource (or liability) in a governmental fund. Hedging implies that a longer time frame is expected for holding the derivative because it is used to manage a cash flow or fair value risk over a longer timeframe.

We recommend that the Board revise its preliminary views and exclude the reporting of derivatives in the financial statements of governmental funds.