new york state society of
NYSSCPA
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July 9, 2002

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1100-163
Exposure Draft: Amendment of Statement 133 on Derivative Instruments and Hedging Activities

Dear Ms. Bielstein:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Steven Rubin, chair of the Financial Accounting Standards Committee, at (212) 492-3799, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jo Ann Golden
President

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON FASB EXPOSURE DRAFT

Amendment of Statement 133 on Derivative Instruments and Hedging Activities

Principal Drafters

John McEnerney
Steven Rubin

June 11, 2002

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Amendment of Statement 133 on Derivative Instruments and Hedging Activities

General Comments

The Financial Accounting Standards Committee (the Committee) of the New York State Society of CPAs appreciates the opportunity to respond to the Financial Accounting Standard Board's (the Board) exposure draft, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities."

The Committee acknowledges the Board's efforts to clarify numerous issues in a very complicated area of accounting. Nonetheless, the Committee believes that the Board is missing an opportunity to significantly improve accounting for derivatives and hedging at a time when clear, simple standards are increasingly being demanded. The Committee realizes that much of the exposure draft incorporates the conclusions of the Derivatives Implementation Group, but critics of the Board could equate additional guidance with additional complexity.

The Committee prefers that the Board adopt the alternative view as described in the draft for a short-term solution and act to simplify the accounting for derivatives and hedging in the near future. The Committee's views on accounting for derivatives and hedging have been conveyed to the Board in previous comment letters. The alternative view provides a conceptually clean approach and furthers the Board's goal of recording financial instruments at fair value.

Specific Comments

- The exposure draft allows alternative treatments for the same transaction, which ensures inconsistent accounting. Specifically, the sentence added to the end of paragraph 12 permits non-option-based contracts with an initial net investment of less than five percent to be accounted for either as a derivative in full or as a bifurcated hybrid instrument with a debt host and a derivative with no fair value. This choice conflicts with the Board's view in paragraph A8 that the amendment delivers the benefits of more consistent reporting of contracts. The Board should determine the preferable treatment and require its application.

- The Committee supports the additional disclosure required as described in paragraph 44. Current market concerns about hidden liabilities in off-balance-sheet vehicles makes this additional transparency very useful and important.

- The Committee would delete condition (b) in paragraph 57(c)(3). Condition (a), which would prohibit stock purchase warrants issued by an entity for only its own stock from being considered readily convertible to cash, is by itself sufficient regardless of any time period. Eliminating condition (b) would conform this provision with other GAAP treatments for warrants issued by an entity for other than in its own stock, which apply in the absence of a time period condition.