new york state society of
NYSSCPA
certified public accountants

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January 13, 2006

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

Re: Proposed FSP 133a: Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133

To Whom It May Concern:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned FASB staff position. 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 Margaret Wood, chair of the Financial Accounting Standards Committee, at (212) 542-9528, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Stephen F. Langowski

President

Attachment

NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Comments on FASB Exposure Draft
FSP FAS 133-a Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133

January 13, 2006

<u>Principal Drafter</u>

John McEnerney

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING STANDARDS COMMITTEE

COMMENTS ON FASB EXPOSURE DRAFT

Proposed FSP FAS 133a, *Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133*

The Committee acknowledges the logic provided in the proposed FASB Staff Position (FSP); it urges the FASB, however, to reconsider the use of deferred debits and credits, which may increase the risk of error and financial statement manipulation. Deferred debits and credits are akin to suspense accounts and may be recognized when they most benefit the institution or its management (e.g., to smooth earnings fluctuations or to increase financial performance based bonuses). Valuation methods which the FASB does not consider reliable as of the transaction date should be excluded from the fair value hierarchy. The proposed disclosure in paragraph 6b ("a reconciliation of the beginning and ending deferred balance(s) during the period, indicating where in the statement of financial position the deferred amounts are reported") further illustrates how the proposed approach will appear unusual and uncertain to many users of financial statements.

In addition, the background discussion on the three methods of determining the value for host contracts and embedded derivatives and the discussion as to which method is acceptable under the proposed changes is not clear. It would be difficult for practitioners to apply the FSP. The FSP should explain the concepts in simpler language and provide examples of instances when each situation would occur. The FSP should also clarify when a host contract and embedded derivative cannot be separated.