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Capital Markets  
Accounting Developments  
Advisory 2008-9  
June 20, 2008

*FASB Issues FAS 161-Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*

**Summary**

On March 19, 2008, the Financial Accounting Standards Board (FASB or the Board) released Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (FAS 161, the Standard). FAS 161 enhances and expands both the qualitative and quantitative derivative disclosures of FAS 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133).

The disclosures were developed by the Board in order to provide financial statement users with the following information:

- How and why an entity uses derivatives;
- How derivatives and related hedged items are accounted for under FAS 133 and its related interpretations; and
- How derivatives and related hedged items affect an entity's financial position, financial performance, and cash flows.

Some of the more significant disclosures required by FAS 161 include:

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- An entity's objectives for holding or using derivatives and its strategies for achieving those objectives discussed in the context of the derivative's primary underlying risk exposure (e.g., interest rate risk, credit risk, foreign exchange rate risk, overall price risk);
- The level of an entity's derivative activity (e.g., total notional amount of contracts);
- The location and fair value amounts of derivative instruments, hedged items and related gains and losses in the balance sheet and income statement, presented in a tabular format;
- The existence and nature of credit-risk-related contingent features and the circumstances in which those features could be triggered in derivatives instruments that are in a net liability position at the end of the reporting period; and
- Cross-referencing among the footnotes to the extent that the required disclosures are presented in more than a single footnote.

FAS 161 is effective for both interim and annual reporting periods beginning after November 15, 2008, with early application encouraged. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

### **Background**

The current disclosures for derivative instruments and hedging activities were established by FAS 133, which was released in 1998. The disclosures included in FAS 133 replaced disclosures both in FAS 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* (FAS 105), and FAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments* (FAS 119). Many of the disclosures from those standards were not carried forward in order to relieve the burden of implementing FAS 133, and because the Board believed that the improved accounting requirements in FAS 133 would generally satisfy users' informational needs.

Over the past few years, as derivative activity and complexity have increased, the disclosures required by FAS 133 have been criticized for not providing adequate transparency to financial statement users.

***FICG Observation:*** FAS 133 does not provide detailed guidance regarding financial statement presentation for hedging instruments or related hedged items, which has resulted in diversity in practice. Disclosure of where the derivatives and related hedged items are presented on financial statements is not always provided. As a result, financial statement users often gain only a limited

understanding of the impact that the derivatives instruments can have on an entity's financial position, results of operations, and cash flows.

The Board added a project to their agenda in March 2005 to reconsider the disclosure requirements of FAS 133 with the goal of addressing concerns that the current disclosures do not provide users of financial statements with adequate transparency as to how derivatives affect the statements of financial position, financial performance, and cash flows. In December of 2006, the Board issued an Exposure Draft for an 85 day comment period. The Board received numerous comment letters and addressed these comments at meetings held throughout 2007 before issuing the final standard in March of 2008.

### **Scope of FAS 161**

The scope of FAS 161's mirrors that of FAS 133. As such, it applies to all entities that have the following:

- Derivative instruments as described in paragraph 6 of FAS 133;
- Nonderivative instruments that qualify and are designated as hedging instruments pursuant to paragraphs 37 and 42 of FAS 133; and
- Related hedged items designated in qualifying hedging relationships under FAS 133.

The scope of FAS 161 includes embedded derivatives separated from host contracts and accounted for as derivatives pursuant to FAS 133. However, a hybrid instrument with an embedded derivative that an entity measures entirely at fair value based on the guidance in FAS 133 or FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155), would not be within the scope of FAS 161.

***FICG Observation:*** While FAS 161 amends and expands the disclosure-related guidance in FAS 133, it does not change the financial statement presentation and classification guidance in FAS 133 for derivative instruments. FAS 161 does not impact the presentation of derivative instruments on the statement of cash flows. The Board limited the scope of FAS 161 to disclosures, noting that various presentation and classification issues relating to derivative instruments and related hedged items are being addressed in the FASB's project on financial statement presentation.

The Board is currently undergoing a separate project to discuss disclosure requirements for credit derivatives. The guidance is expected to be in the form of a FASB Staff Position (FSP). The purpose of the FSP will be to require disclosure information that is consistent for credit derivatives regardless of whether they are accounted for under FAS 133 or FIN 45, *Guarantor's*

*Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The FSP is expected to be effective for all fiscal years and interim periods beginning after November 15, 2008, consistent with FAS 161.

### **Disclosure of Objectives and Strategies for Using Derivative Instruments**

FAS 161 amends paragraph 44 of FAS 133 to require an entity that holds or issues derivative instruments to disclose its objectives for using them and its strategies for achieving those objectives, distinguishing between instruments used to manage risk and those used for other purposes. To encourage more transparent communication of how and why entities use derivatives to manage their risks, the Board decided to require that the instruments be discussed in the context of each instruments' primary underlying risk (e.g., interest rate risk, credit risk, foreign exchange rate risk, overall price risk).

For derivative instruments designated as hedging instruments, the descriptions in the disclosure are required to distinguish between those derivative instruments designated as fair value hedges, cash flow hedges, or net investment hedges. Entities may elect to provide additional information, such as the various types of derivative instruments used to manage each type of primary underlying risk, or the specific exposures within each underlying risk category (e.g., exposures to specific foreign currencies). If the derivative instruments are not designated as hedging instruments, the disclosure should clearly state the reason for the derivative activity.

Entities are encouraged, but are not required, to provide qualitative disclosures about their objectives and strategies for using derivative instruments within the context of their overall risk exposures (e.g., interest rate risk, foreign exchange rate risk, credit risk). If made, the additional qualitative disclosures should include a discussion of all risk exposures, even if the entity does not use derivative instruments to manage some of them. The Board initially considered making this qualitative disclosure one of the required minimum disclosures. However, the Board ultimately decided against making the disclosure a requirement because it had previously decided that the scope of the FAS 161 should be identical to the scope of FAS 133 and an entity might use instruments that are outside the scope of FAS 133 in its strategies for mitigating risk exposures.

### **Disclosure of an Entity's Volume of Derivative Activity**

An entity that holds or issues derivative instruments is required to disclose information that would enable users of its financial statements to understand the volume of its derivative activity. For example, information about an entity's volume of derivative activity might include the total notional amount of interest

rate derivatives outstanding during the period, segregated in a meaningful way. The disclosure might also include other directional information about its derivative positions (e.g., distinguishing receive-fixed interest rate swaps from pay-fixed interest rate swaps). Initially, the Board considered requiring disclosure of the notional amounts associated with derivative instruments. However, many respondents to the exposure draft stated their concern that notional amounts, in and of themselves, have limited usefulness for indicating the magnitude of the risks being managed. The information on notional amounts could be misleading because the gross presentation does not appropriately reflect the effect of some common strategies.

***FICG Observation:*** For example, an entity might choose to hedge its exposure to four quarterly interest payments on a \$100 liability. The entity could hedge this exposure with a swap contract having a notional of \$100 with four quarterly coupon payments, or the entity could achieve the same economic effect with a series of four separate \$100 notional forward contracts, one of which settles on each of the four quarter-end dates. The aggregate notional amount in the latter example would be \$400 and in the former \$100, although both instruments could be used to mitigate the same risk exposure. For this reason, FAS 161 does not prescribe a specific form and content for disclosure of the volume of an entity's derivative activity, rather it establishes a principles-based disclosure objective that permits entities to select the most appropriate manner of disclosure given their facts and circumstances. High volume users of derivative instruments will need to analyze their history of derivative activity to determine what information would best meet this disclosure objective. Management also will need to maintain systems and processes to ensure timely recording of the volume-related information in sufficient detail to enable the preparation of the disclosure in a timely fashion.

#### **Required Disclosure in Tabular Format**

FAS 161 requires a minimum of two disclosure tables in each annual and interim reporting period for which a balance sheet and income statement are presented. These two tables should include the following:

- Location and fair values of derivative instruments included in the balance sheet; and
- Location and amount of gains and losses on derivative instruments and related hedged items included in the income statement or, when applicable, gains and losses initially recognized in other comprehensive income (OCI) [FAS 161, par. 3(b), which adds FAS 133 par. 44C(a)-(b)].

The tabular disclosures are required to distinguish between derivative instruments that are qualifying and designated as hedging instruments under

FAS 133 and those that are not; and, for the income statement, the disclosure is required to further segregate the qualifying and designated hedging instruments by their accounting designation as a fair value, cash flow, or net investment hedge. Within those groupings, the derivative instruments are required to be segregated by major type of instrument (e.g., interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts).

The Board decided to prescribe a tabular format for the disclosures because it felt that using tables would improve the transparency of the accounting for derivatives and related hedged items and would help users of financial statements understand the effects of derivatives on an entity's financial position, results of operations, and cash flows. In the exposure draft, a table would have been required for each separate underlying risk. Many preparers expressed significant operational concerns about preparing the volume of information required by the proposed disclosures and argued that the proposed disclosures would not provide useful information. To balance the concerns of preparers with the needs of financial statement users, the Board decided to require only two tables—one relating to the balance sheet disclosures, the other relating to the income statement disclosures—but require them for all interim and annual reporting periods for which a balance sheet and income statement are presented.

### **Balance Sheet Disclosures**

FAS 161 requires disclosure of the fair value amounts of derivatives and where those fair values are reported in the balance sheet. FAS 161 is prescriptive about the level of aggregation of fair value amounts that should be included in the disclosure tables. In aggregating the fair values of derivatives in the table:

- Derivative instruments in asset positions at the end of the reporting period should be presented separately from instruments in liability positions at the end of the reporting period;
- Derivative instruments should be presented on a gross basis, even if the instruments are subject to master netting arrangements and qualify for net presentation under FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (FIN 39); and
- Collateral amounts associated with derivative instruments should be excluded [FAS 161, par. 3(b), which adds FAS 133 par. 44C(a)(1)-(2)].

***FICG Observation:*** An entity that transacts in the futures market is often required to maintain a margin deposit account with its broker or the futures exchange. In addition, depending upon the contract terms, an open futures contract may require periodic cash settlements based on market movements. We believe that margin and periodic cash settlement amounts should be excluded from the tabular disclosure if the amounts are considered collateral

amounts associated with the open positions under FIN 39 or FASB Staff Position FIN 39-1, Amendment of FASB Interpretation No. 39 (FIN 39-1).

***FICG Observation:*** Nonperformance risk calculated pursuant to FAS 157, Fair Value Measurements, may be performed on a net basis, considering master netting arrangements, credit support arrangements, and other forms of collateral. While a company may be able to qualitatively assume that such nonperformance risk may not need to be allocated to individual derivative instruments in the financial statements, they may need to allocate the nonperformance risk to individual derivative instruments in order to comply with the requirements under FAS 161.

The disclosure tables must be prepared using gross fair value amounts, even though their presentation and classification in the balance sheet may give effect to applicable master netting arrangements and credit support arrangements with collateral. The Board expressed its belief that disclosing the fair value amounts on a gross basis would help users understand how and why an entity uses derivative instruments. The Board was concerned that disclosing information on a net basis could make it difficult to analyze (1) the risks being managed with derivatives and (2) the relationship between the fair values of derivatives and the associated gains or losses reported. Additionally, any requirement to include collateral payables and receivables in the disclosure table would be inconsistent with the scope of FAS 161, which was limited to items accounted for under FAS 133.

***FICG Observation:*** Because FAS 161 requires the tabular disclosure to be prepared on an instrument-by-instrument level basis that disregards the effect of netting arrangements and collateral positions, it is possible that individual amounts included in the disclosure will not tie to the amounts presented in the balance sheet. The Board accepted this potential inconsistency between the gross amounts disclosed in the footnote and those presented net in the balance sheet because the alternative of disclosing information on a net basis could provide misleading information about the types of risks being managed with derivatives.

In addition, an entity that has multiple derivatives with a single counterparty subject to a master netting arrangement may incorporate certain risks (e.g., nonperformance risk) into its valuation of the derivatives at the portfolio-level. While the entity may determine on a qualitative basis that the impact of those portfolio-level valuation adjustments need not be allocated for purposes of its FAS 133 hedge effectiveness assessment, a reasonable allocation for purposes of preparing FAS 161's contract-level tabular disclosures may be necessary. We believe that entities should select, and consistently apply, a rational allocation

methodology for allocating the portfolio-level valuation adjustments to the individual derivatives for purposes of preparing the FAS 161 tabular disclosures.

For the reasons described above, the amounts in the footnote may not tie to the amounts presented in the balance sheet. Although not required by FAS 161, entities may wish enhance their FAS 161 disclosures by including a reconciliation of the amounts in the disclosure table to the amounts in the balance sheet.

### **Income Statement Disclosures**

FAS 161 requires disclosure of the amount of gains and losses for derivative instruments and related hedged items and where those amounts are reported in the income statement (or, when applicable, the balance sheet, for gains and losses initially recognized in OCI). The disclosure requirement includes tabular presentation by accounting designation (e.g., fair value hedges, cash flow hedges, or net investment hedges) and by type of derivative contract (e.g., interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts). Gains and losses are required to be presented separately for:

1. Fair value hedges: Derivative instruments qualifying and designated as hedging instruments in fair value hedge relationships and related hedged items;
2. Cash flow hedges: Derivative instruments (or, a proportion of a derivative instrument) qualifying and designated in cash flow hedge relationships, representing (1) the effective portion that was recognized in OCI during the current period, (2) the effective portion in accumulated other comprehensive income (AOCI) during the term of the hedging relationship and reclassified into earnings during the current period, and (3) the amount of the hedges' ineffectiveness and the amount, if any, excluded from the assessment of hedge effectiveness;
3. Net investment hedges: Derivative instruments qualifying and designated in net investment hedge relationships (and nonderivative instruments that qualify and are designated as hedging instruments pursuant to paragraphs 37 and 42 of FAS 133), representing (1) the effective portion that was recognized in OCI during the current period, (2) the effective portion in AOCI during the term of the hedging relationship and reclassified into earnings during the current period, and (3) the amount of the hedges' ineffectiveness and the amount, if any, excluded from the assessment of hedge effectiveness; and
4. No hedge designation: Derivative instruments that are not qualifying or designated as hedging instruments.

The income statement table does not require the disclosure of gains and losses on derivatives to distinguish between those that exist at the end of the reporting period and those that are no longer held at the end of the reporting period. In the exposure draft, the Board proposed requiring separate disclosure of the gains and losses based on whether the related derivative instrument was held at period end. However, the Board determined that such a disclosure would prove too voluminous for entities to prepare and would not be particularly useful to financial statement users. In addition, an entity with fair value hedges may present the gains and losses related to hedged items in a nontabular format.

### **Alternative Disclosures for Trading Derivatives**

An entity with trading activities may manage the overall risk in its trading portfolio by using both derivative and nonderivative instruments. If an entity has a policy of including derivative instruments that are not qualifying or designated as hedging instruments in its trading activities (e.g., as part of its trading portfolio that includes both derivative and nonderivative or cash instruments), FAS 161 permits that entity to elect to provide all of the following disclosures as an alternative to providing the tabular income statement disclosures for its nonqualifying or nondesignated derivative instruments included in trading activities:

- The gains and losses on its trading activities recognized in the income statement, disaggregated by major types of items (e.g., fixed income/interest rates, foreign exchange, equity, commodity, and credit);
- The line items in the income statement in which gains and losses from trading activities are included; and
- A description of the nature of its trading activities and related risks, and how the entity manages those risks [FAS 161, par. 3(b), which adds FAS 133 par. 44C(c)].

These alternative disclosures for the nonqualifying or nondesignated derivative instruments included in trading activities permit entities to disclose on a combined basis the gains and losses related to all derivative and nonderivative instruments classified as trading instruments. If the option is elected, the entity should include a footnote in the required derivative tables that references the use of alternative disclosures for trading activities.

### **Disclosure of Existence and Nature of Contingent Features**

FAS 161 requires entities to disclose information about the existence and nature of credit-risk-related contingent features (e.g., a material adverse change clause or payment acceleration clause) in derivative instruments (and nonderivative instruments qualifying and designated in hedging relationships) for every annual and interim reporting period in which a balance sheet is presented. These disclosures include the following:

1. The existence and nature of credit-risk-related contingent features and the circumstances in which the features could be triggered in derivative instruments (and nonderivative instruments qualifying and designated in hedging relationships) that are in a net liability position at the end of the reporting period;
2. The aggregate fair value amounts of derivative instruments (and nonderivative instruments qualifying and designated in hedging relationships) that contain credit-risk-related contingent features that are in a net liability position at the end of the reporting period; and
3. The aggregate fair value of assets that are already posted as collateral at the end of the reporting period and the aggregate fair value of additional assets that would be required to be posted as collateral and/or the aggregate fair value of assets needed to settle the instrument immediately, if the contingent features were triggered [FAS 161, par. 3(b), which adds FAS 133 par. 44D(a)-(c)].

The disclosure is intended to provide information about the timing and likelihood of those contingencies occurring, and the magnitude of the impact that credit-risk-related contingency features could have on an entity's financial position, results of operations, and cash flows, particularly on an entity's liquidity. Derivative instruments often contain credit-risk-related contingent features that could result in an immediate payment to the counterparty. For example, a material adverse change clause could provide the counterparty with the right to early terminate the derivative agreement. Alternatively, it could provide a basis for renegotiating the agreement if specific events occur, such as a downgrade of the entity's credit rating below investment grade. These provisions may include an obligation to post additional collateral in instances where the credit-risk contingent feature is triggered or the counterparty is provided the right to terminate the agreement early.

***FICG Observation:*** The requirement to disclose information about the timing, likelihood, and magnitude of the impact of credit-risk-related contingency features for instruments in a net liability position is a recurring interim and annual disclosure requirement. Accordingly, an entity that has a large volume of derivative activity may wish to identify and track credit-risk-related contingency features in all of its derivative instruments that presently are or could eventually become a net liability. This can reduce the extent of effort needed to timely prepare the information at each period-end, and thus reduce operational difficulties in meeting interim reporting timeframes should a market movement change a derivative instrument from a net asset to a net liability position.

### **Disclosure of Counterparty Credit Risk**

Although paragraph 15A of FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments (FAS 107), applies to all financial instruments, diversity in practice had developed as to whether those disclosure requirements should also be applied to derivative instruments. Paragraph 15A requires disclosure of information about significant concentrations of counterparty credit risk, including, among other requirements, individual and group concentrations, maximum amount of loss due to credit risk based on the gross fair value of the financial instruments, the entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, and the entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments including the extent to which master netting arrangements could potentially reduce the entity's maximum amount of loss due to credit risk. FAS 161 amends FAS 107 by adding a footnote to paragraph 15A to clarify that derivative instruments accounted for under FAS 133 are, in fact, included within the scope of FAS 107.

***FICG Observation:*** FAS 107 is a disclosure standard that applies to financial instruments. The footnote clarification discussed above makes clear that the disclosure requirements in paragraph 15A apply to all derivative instruments. However, because a derivative instrument may be a financial instrument or a nonfinancial instrument, the footnote raises a separate question about whether these disclosures should now be made for all derivatives, including those that are nonfinancial instruments. Unless otherwise clarified by the FASB, we would consider it best practice that entities provide the FAS 107 disclosures for both financial and nonfinancial derivative instruments. Such disclosures would provide useful information that could benefit the users of the financial statements.

### **Frequency of Disclosures: Interim and Annual Reporting Periods**

The Board decided that disclosures should be required for all interim and annual reporting periods for which a balance sheet and income statement are presented. Accordingly, FAS 161 amends paragraph 30 of APB Opinion No. 28, Interim Financial Reporting (APB 28), to require the presentation on an interim basis. During the comment period, several constituents expressed their view that requiring the disclosures for interim reporting periods would be overly onerous and costly for preparers. Users, however, indicated that information on an interim basis would be extremely useful in assessing an entity's quarterly financial performance, given the frequent changes in derivative fair values. With fewer tabular disclosures required under the final standard, the Board believes that the difficulties of preparing interim disclosures would be considerably reduced. Additionally, the benefits of updated interim disclosures to financial statement users would be significant because it would give transparency to the expected frequent changes in fair values of derivative instruments.

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### **Cross-Referencing to Other Derivative-Related Disclosures**

While some members of the Board believe that disclosing all derivative-related information in a single footnote would enhance the understandability of information about derivatives, a majority of the Board determined that entities should retain some flexibility in determining which location in the footnotes is most appropriate for the required disclosures. Accordingly, FAS 161 neither prescribes the organization of footnote disclosures nor mandates that all derivative disclosures be included in one note. However, FAS 161 does require cross-referencing to any other footnotes that contain disclosures about derivative instruments.

### **Illustrative Disclosures**

FAS 161 includes illustrative examples of the required disclosures. The examples do not address all possible ways in which the disclosure requirements can be applied. Additionally, the language used in the examples is not intended to become boilerplate language for an entity to use in its disclosures. Instead, the Board encourages entities to refer to the overall objectives of the disclosure requirements in developing the disclosures required by FAS 161.

### **Effective Date and Transition**

FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (i.e., January 1, 2009 for calendar-year entities), with earlier application encouraged.

FAS 161 encourages, but does not require, disclosures for earlier periods presented for comparative purposes at initial adoption.

In years after initial adoption, FAS 161 requires comparative disclosures only for periods subsequent to initial adoption.

***FICG Observation:*** FAS 161 is effective for the first interim or annual period beginning after November 15, 2008. For example, an entity with a calendar year-end that reports on an interim basis should apply the requirements of FAS 161 in its interim report for the period that ends on March 31, 2009. Similarly, an entity with a fiscal year-end of June 30 that reports on an interim basis will also apply the requirements of FAS 161 in the quarter ending March 31, 2009.

Derivative disclosures required under FAS 133 were only required to be presented at year-end. The new enhanced and expanded derivative disclosures required under FAS 161 are required to be presented at both interim and year-end periods.

Calendar year-end companies should present annual comparative disclosures beginning with its financial statements for December 31, 2010.

If a company's income statement provides three years of information, comparative disclosures will be provided for 2010 and 2009, but not 2008.

### Operational Issues

**FICG Observation:** The enhanced and expanded disclosures required under FAS 161 are more numerous and rigorous than the disclosures required under FAS 133, which allows companies to produce most of their disclosures using summary level derivative data.

Many companies gather the required information through consolidated ledger accounts and, thus, do not currently collect derivative information on trade by trade basis.

The disclosures in FAS 161 require derivative information to be disclosed on a more granular level, which will require companies to significantly modify their current processes. Companies that currently collect derivative information through their ledger can either modify their current ledger account structure by creating a large number of new accounts or can collect derivative trade and FAS 133 ineffectiveness measurement details on a trade by trade basis.

Multinational companies that utilize derivatives in foreign subsidiaries and currently collect disclosure information through their ledger accounts will need to begin reengineering automated derivative data collection processes now to avoid collecting derivative data manually. Multinationals that do not currently have a centralized business or treasury unit that collects derivative data and manages derivative activity will have to make significant operational changes in order to comply with FAS 161.

**FICG Observation:** Many of the most operationally burdensome disclosures included in the Exposure Draft were removed from the final version of FAS 161 because of either the cost and operational difficulties of implementation or because the respondents to the Exposure Draft felt that they were not useful.

Notwithstanding this, entities that use derivatives extensively still face significant challenges in gathering all of the information required for the new disclosures

The disclosures relating to hedged items and the amounts reclassified from OCI to P&L will be challenging because FAS 161 requires data to be presented in tabular format separated by contract type and hedge type. Separating changes

in value of hedged items by contract and hedge type could be difficult in cases when hedged items included in the same account are being hedged by multiple contract types. The reclassification from OCI to P&L could also be difficult to track by contract type as the derivatives related to amounts in OCI may have matured when the reclassification from OCI to P&L occurs.

Disclosures about contingent credit features will be difficult for entities that have varying contingent credit features in derivative contracts. If varying contingent credit features exist in an entity's derivative contracts, each derivative contract will have to be reviewed in order to identify the specific features of each contract. In addition, derivative systems will need to be modified so that contracts with credit contingent features can be flagged and information regarding the fair value, collateral currently posted, and net liability position related to these contracts can be gathered each quarter.

### **Questions**

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