March 25, 1997

Senator Phil Gramm
Chairman
Subcommittee on Securities
United States Senate
Committee on Banking, Housing, and
Urban Affairs
Washington, DC 20510-6075

Dear Senator Gramm:

Thank you for your March 20 letter. An FASB representative observed the hearing on March 4, obtained written statements provided by witnesses, and prepared extensive notes on the dialogue between the Senators in attendance and the witnesses. All of this information has been provided to each of our Board members and to all staff members working on the accounting for derivatives and hedging project.

As you know, for the past three months the FASB has been redeliberating all of the issues in its June 1996 Exposure Draft. A number of issues remain to be redeliberated, and we expect to continue meeting on derivatives for at least another month. In our Board meetings, all of which are open to public observation, we have been reconsidering our earlier decisions based on comment letters received, public hearing testimony, field testing performed, and all other information we have received. The information presented at your hearing will be carefully considered as well. However, I must observe that most of the witnesses at your hearing had provided comments to us earlier and little, if any, of the information they provided to your Subcommittee was new information to us or raised issues that we hadn’t already considered.

As I am sure you recognize, most of the testimony at your hearing related to the conclusions in the June 1996 Exposure Draft. Many of those conclusions already have been modified in our redeliberations, primarily in the directions suggested in a majority of the comments we received. We plan to discuss the full set of revised conclusions at public meetings with our Financial Accounting Standards Advisory Council on April 15 and our Financial Instruments Task Force on April 29.
I assure you that the FASB will continue to take “into account the concerns raised before the Securities Subcommittee.” Our objective in this project is to develop improved accounting standards for derivative instruments, including derivatives used in hedging, that will result in credible information being provided to investors, creditors, regulators, and all others who use financial statements in making economic decisions.

As noted in the testimony provided to you by SEC Commissioner Wallman, “... it is time for the FASB to finish its project and provide the much-needed new accounting standards for derivatives and hedging instruments.” We recognize our obligation to complete this project in a reasonably timely manner to serve the needs of financial markets and others who rely on relevant and reliable financial information.

Sincerely,

Dennis R. Beresford

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DRB:mk