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Mr. Robert C. Butler
Chairman
Financial Accounting Standards Advisory Council
401 Merritt 7
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Re: **Matters Discussed at the July 15, 1997 FASAC Meeting**

Dear Bob:

In response to your letter of July 23rd asking for some feedback on the items discussed at the last meeting of the Council, I'd like to offer a few thoughts on the derivatives exposure draft, and the Board's project to measure all financial instruments at fair value.

First, I want to congratulate the Board on having made an impressive amount of progress in the last month. I think you will find very widespread support in the securities industry for the decision to abandon specific tests of effectiveness in favor of reliance upon consistency with management's stated risk management objectives and strategies, subject to a "reasonability" test. The Board's simplified approach promises to produce a document which is understandable enough to implement, and flexible enough to accommodate a wide range of risk management activity. That's a major achievement. However, I would make two points.

First, the recent decisions which the Board has announced presents the palpable prospect of a statement that will be truly workable. A number of our member firms, who had been quite critical of the original exposure draft, now hope that they may be able to support the final statement. However, those decisions are only as good as the language in which they are clothed. It is *essential* that the precise language of the proposal deliver on the promise.

Second, we are also concerned about the very tight timetable for receiving comments. The changes made in the last few weeks are quite broad, involving issues that are extremely complex and deeply implicate how a firm engages in risk management. When the draft statement is made available, our firms will need to review it carefully, consider and discuss its meaning and implications, and then articulate any questions or problems that we believe remain unresolved. We doubt that forty-five days will give us enough time to accomplish those objectives.

I understand and accept the Board's decision not to re-expose. I do not believe, however, that a decision to extend the time allowed for comment on the near-final standard will endanger the

Board's current implementation schedule. Based upon discussions my staff has had with a number of our firms, they do not believe that the rule presents particularly burdensome systems development problems. Consequently, they do not believe that a moderate delay in the issuance of a final rule will necessitate a roll-back in the implementation date of the standard. Thus, I urge the Board to extend the currently proposed 45-day review period to 90 days.

I realize that the Board has expended a great deal of time and effort in this undertaking, and I can sympathize with the desire to bring it to a conclusion. But I think it worthwhile, particularly in view of those efforts, to take the time to "get it right." In our view, allowing an extra 45 days for comment would help ensure that goal.

Finally, as I indicated in my June 12th letter to you and at last month's meeting of the Council, I hope that the Board will proceed with the project to report all financial instruments at fair value for all active capital markets participants, which I understand is also the goal of the International Accounting Standards Committee. In our view, continued use of historical cost rather than fair market value by financial intermediaries would represent a regrettable retreat from the goals of the Board.

I hope that these views help move the Board to a more constructive course with respect to accounting for derivatives.

With best wishes, I am

Sincerely yours,

Marc E. Lackritz
President

cc: Arthur Levitt, Jr.; Ed Jenkins; Joe Anania; Anthony Cope; Neel Foster; Gaylen Larson; Jim Leisenring; Gary Mueller; Mike Sutton; Tim Lucas