

**Securities Industry Association**

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December 22, 1998

Lynn E. Turner
Chief Accountant
Office of the Chief Accountant
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Hedging with Inter-company Derivative Contracts

Dear Mr. Turner:

On behalf of the OTC Derivative Products Committee of the Securities Industry Association (the "SIA")¹ I wish to convey our concerns with remarks made on December 8th by Pascal Desroches, a Professional Accounting Fellow in your office, to the Annual Conference on Current SEC Developments. His speech indicates that, as of January 1, 1999, hedging transactions between a bank or broker-dealer's treasury department and its derivatives desk will not qualify for hedge accounting unless that transaction can be matched, more or less precisely, with a trade between the dealing operation and an unrelated third party.

This pronouncement threatens a practice that is widespread among financial institutions. Changing that practice has economic implications that we believe are undesirable. At the same time, we do not believe that the change is needed to address any current accounting abuse.

Our members have not had time to study the full implications of Mr. Desroches' remarks or to assess the difficulties they may have in redesigning their hedging procedures. Announcement by the Securities and Exchange Commission of such a sweeping change in approach in a speech given less than two weeks ago does not provide the industry with meaningful time to respond prior to the effective date of January 1. We expect to consult with our member firms as soon as possible and to communicate our views to you in the near future.

Sincerely,

Zachary Snow
Chairman, OTC Derivative Products Committee

Footnote:

¹ SIA brings together the shared interests of nearly 800 securities firms, employing more than 380,000 individuals, to accomplish common goals. SIA members including investment banks, broker-dealers, and mutual fund companies are active in all markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50 million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans, and accounts for \$270 billion of revenues in the U.S. economy.