

ISDA

International Swaps and Derivatives Association, Inc.
360 Madison Avenue, 16th Floor
New York, NY 10017
United States of America
Telephone: (212) 901 6000
Facsimile: (212) 901 6001
email: isda@isda.org
website: www.isda.org

March 30, 2004

Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Mr. Herz:

The revision to FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, (“FIN 46R”) clarifies how to identify a variable interest entity and how an enterprise should assess its involvement with a variable interest entity to decide whether or not to consolidate that entity. FIN 46R indicates that the identification of variable interests involves determining which assets, liabilities, equity, and other contracts create or absorb variability. Application of this guidance in FIN 46R to derivatives has been challenging because derivatives may be designed to both create and absorb variability.

The Board’s primary objective in issuing the revised Interpretation was “...to achieve a more consistent application of consolidation policies to variable interest entities and, thus, to improve comparability between enterprises engaged in similar activities....” However, ISDA members are aware of different approaches to analyzing derivatives that are being developed in practice. ISDA members are concerned that differing approaches will lead to inconsistencies in the identification of derivatives as variable interests or not, which can impact the determination of the primary beneficiary of variable interest entities.

This concern led ISDA to assemble a working group to address the issue of accounting for derivatives under FIN 46R. The working group identified the different approaches to applying FIN 46R that are currently espoused by accounting firms and major financial institutions, and in an effort to disseminate the different approaches, the group drafted the attached paper entitled “Analyzing Derivative Instruments under FIN 46R.” The objective of the analysis is to summarize the approaches and highlight the different conclusions reached by way of illustrative examples.

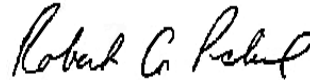
ISDA members would like the opportunity to discuss the information presented in this paper with FASB Board members and FASB staff. We believe that the process of gathering the information provided in this paper and performing the analysis for each of the different approaches has provided valuable insight. In addition, the ISDA membership has substantial

professional and practical expertise in addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments. ISDA members are hopeful that discussions with FASB staff will serve to provide clarity to companies and their auditors as they implement and apply FIN 46R.

Sincerely,



Shannon Warren
J.P. Morgan Chase & Co.
Chair, Accounting Policy Committee
International Swaps and Derivatives Association
212.648.0906



Robert G. Pickel
Director and CEO
International Swaps and Derivatives Association
212.901.6020

cc: George J. Batavick
G. Michael Crooch
Gary S. Schieneman
Katherine Schipper
Leslie F. Seidman
Edward W. Trott

Donald T. Nicolaisen
Chief Accountant
Securities and Exchange Commission