



National Association of State Auditors, Comptrollers and Treasurers

April 11, 2011

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Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

We generally agree with the ED's provisions and believe the proposed provisions will improve comparability between governments applying the provisions of GASB Statement No. 53 and will clarify what constitutes a termination event for hedge accounting and reporting. In addition, the proposed statement preserves hedge accounting in appropriate conditions, assisting the financial reporting needs of governments by providing specific criteria that must be met in order for governments to continue using hedge accounting. Governments use hedge accounting to significantly reduce identifiable financial risk by substantially offsetting changes in the cash flows or fair values of the hedgeable item. However, we do have the following comments we believe the board should consider as it finalizes this statement.

Paragraph 4 (1)

The language used to describe these complex issues is confusing to non-experts of hedge accounting. The proposed amendment to subparagraph 22d (1) states: "The interest rate swap or commodity swap represents a liability of the government." Does this refer to a swap that has a negative fair value? We suggest that a clarification and additional information be incorporated into the statement in the form of expanded definitions and examples of these criteria.

Paragraph 5

The glossary for "Assignment" could be expanded to provide guidance on how any payments or receipts between the governmental entity and the replacement counterparty would be calculated and recorded. Since the replacement counterparty is accepting the identical terms of the original swap agreement, there may be payments or receipts by either party.

The third bullet indicates that the terms of the original and replacement swap agreements must be identical, which we believe is only practicable in an "assignment." At a minimum, the inception date would be different for an in-substance assignment and therefore, would not have identical terms. We recommend the Board include additional text to explain that the criteria for an in-substance assignment require the new instrument to have identical terms, and to clarify whether there are any exceptions to this requirement.

The last bullet uses the term "exit price" and then defines it. For consistency, the same treatment should be given for "replacement swap's price."

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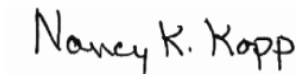
We recommend that the Board expand the last bullet to provide additional or clarifying guidance on determining the following: (1) the exit price of the original swap agreement, (2) the price of the replacement swap agreement, (3) how any difference between the exit price of the original swap agreement and the price of the replacement swap agreement are determined, and (4) how any resulting payments or receipts by the governmental entity are calculated and recorded in the financial statements. This guidance, which should include examples and illustrations, may be better suited for inclusion in an appendix.

General Comments

To reinforce the technical language in this standard, we suggest the use of illustrations to provide the reader with something tangible to follow. Examples that include common events of default and the resulting termination or continuation would be beneficial.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASC at (859) 276-1147 or me at (410) 260-7160.

Sincerely,

A handwritten signature in black ink that reads "Nancy K. Kopp". The signature is written in a cursive, slightly slanted style.

Nancy K. Kopp
NASACT President