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**U.S. House of Representatives**  
**Committee on Commerce**  
 Room 2125, Rayburn House Office Building  
 Washington, DC 20515-6115

May 13, 1997

JAMES F. DERDERIAN, CHIEF OF STAFF

Mr. Dennis Beresford  
 Chairman  
 Financial Accounting Standards Board  
 401 Merritt 7  
 P.O. Box 5116  
 Norwalk, Connecticut 06856-5116

Dear Mr. Beresford:

I appreciate the time you spent with me today discussing the consideration by the Financial Accounting Standards Board (FASB) of its exposure draft on "Accounting for Derivative and Similar Financial Instruments and for Hedging Activities." I would like to reiterate some of the points we discussed, and, once again, urge FASB to ensure that the public is provided an adequate opportunity to review and comment on the exposure draft as recently revised.

Risk management practices of American businesses have developed significantly over the last several years and have become recognized and valuable tools in maximizing shareholder value. The widespread reliance by U.S. companies on derivative instruments for risk management means that any change to the regulations governing these instruments can have a profound impact on the investing public and our financial markets. Accordingly, it is essential that any such changes be carefully considered and based on a thorough understanding of their potential impact on U.S. companies and investors.

The financial accounting rules that FASB is currently considering will radically change the way businesses report the results of risk management activities. Companies that have prudently minimized risks with derivative instruments have expressed concerns that FASB's proposed rules would force them to report artificially greater volatility in their financial statements than their competitors who choose to accept such risks. The result of such increased volatility would be a reduction in shareholder value for companies that manage their financial risk, as well as a curious incentive for companies to avoid managing risk with the most efficient risk-management tools.

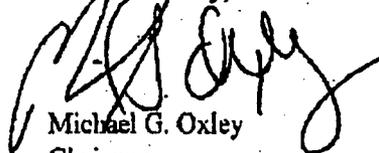
Artificially increased volatility, reduced shareholder value, and increased company risk would have a significant impact on American investors, including the many who rely on pension plans, 401(k) accounts, and mutual funds to invest for their future.

I understand that FASB received extensive public comments on its original proposal. I also understand that FASB began redeliberations of the exposure draft in January 1997, and, in the process of its redeliberations, has responded to some of the concerns raised by respondents to the exposure draft by making numerous and significant changes to its proposal, including many significant changes to which the Board has agreed in recent weeks.

I commend the Board for its constructive approach to working with those that would be affected by the proposed new rules to improve the Exposure Draft, and support efforts to improve the usefulness and accuracy of financial statements. As you pointed out during our meeting, many of the changes that the Board has recently agreed to would reportedly resolve certain of the concerns that have been raised about the proposed rules. These changes, however, have not been reissued as a revised draft for public comment and suggested revisions. The extent and import of these changes, such as, for example, the changes regarding the "separation by risk" approach to measuring changes in fair value, have raised significant public concern that, without re-exposure of the Draft, it will not be possible for the public or FASB to develop a thorough and fair assessment of the collective changes to the Draft and the potential impact of the revised rules on the risk management activities of U.S. companies.

It is essential that FASB ensure that the process through which new rules regarding derivatives accounting are implemented provides adequate time and opportunity for the public and FASB to develop a thorough understanding of the potential impact of those rules. I understand that you are eager to see this project completed. The changes that the revised draft would implement, however, are too significant to rush. I urge you and the other members of the Board to re-expose the revised draft to ensure that the affected public has sufficient opportunity to review and comment on the proposed new rules.

Yours Sincerely,



Michael G. Oxley  
Chairman

Subcommittee on Finance and Hazardous Materials

MGO:ldr

cc: The Honorable Tom Bliley  
Chairman

The Honorable John Dingell  
Ranking Minority Member

The Honorable Thomas J. Manton  
Ranking Minority Member, Subcommittee on Finance and Hazardous Materials