# Disclosing Data On Derivatives To Be Required

## FASB Is Set to Issue Rule That's Seen as Weaker Than Earlier Proposal

WSJ

8/18/94 By ANITA RAGHAVAN A2

*Staff Reporter of* THE WALL STREET JOURNAL

NEW YORK – The Financial Accounting Standards Board said it plans to issue a rule Oct. 1 requiring companies to disclose more information about the derivatives they hold.

But some of the more rigorous disclosure requirements that FASB originally proposed probably will be watered down when the final rule is unveiled, because of complaints from banks and broker-dealers. Derivatives are financial agreements whose returns are linked to, or derived from, the performance of some underlying asset, such as bonds, currencies or commodities.

FASB's proposed rule would require more specific details about a company's objectives for holding or selling derivatives, their risks, trading strategies and how and where these transactions are described in the annual report.

"It's clearly a step in the right direction," says John Verdonck, a partner in the financial-services practice at KPMG Peat Marwick. "But it's not going to be giving people enough information to do an in-depth analysis of a company's risk-management strategies."

Under the original proposal, made in April, companies that hold derivatives for trading purposes, such as banks and broker-dealers, would be required to disclose the maximum and minimum amount of each class of derivative security held or issued during the year.

### Less Specific

But when the final draft of the rule is unveiled in October, it will only require banks and broker-dealers to report the average amount of derivatives held or issued during the year.

In addition, under the original proposal, companies would have had to break

# FASB Requires More Disclosure On Derivatives

## Firms Must Say How Much They Own, but Risks Need Not Be Revealed

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10/6/94 By LEE BERTON

*Staff Reporter of* THE WALL STREET JOURNAL

NEW YORK – The Financial Accounting Standards Board issued a rule requiring more disclosure about derivatives held by companies.

But critics say the rule fails to adequately warn investors about the risks that trading in derivatives poses to the companies.

The rule, which was expected, requires added disclosures about the amounts, nature and terms of derivatives. Derivatives are financial agreements whose returns are linked to or derived from the performance of underlying assets such as bonds, currencies or commodities.

For big companies, the rule takes effect with their full-year 1994 financial statements. Companies with less than $150 million in assets must comply with their full-year 1995 financial statements.

For derivatives held for trading, the rule requires disclosure of the average fair or current-value balance of positions during the reporting period and net gains or losses from trading. Under the rule, companies also must identify the derivatives from which those gains or losses arose and the location of those figures in the financial report.

### Disclosure of Risks Not Required

But the action by the chief rulemaking body for accountants doesn't require companies to inform investors about the potential risks to the companies of trading in specific derivatives if certain economic changes occur.

"The rule doesn't tell how a comp[illegible] monitors and contols its use of derivati[illegible] to manage financial risk," says Robert Herz, a partner and derivatives specialist at accountants Coopers & Lybrand. And the rule encourages – but doesn't require – disclosure about how changes in interest rates, foreign currencies or commodity prices might hurt or benefit a company, Mr. Herz notes.

John T. Smith, director of Deloitte & Touche's financial instruments research group, says the rule "advances the ball with disclosure." But he says that additional rules are needed to guide companies on how to account for the financial impact of derivatives.

### Finding Firms' Derivatives Problems

John Verdonck, a partner in KPMG Peat Marwick's financial-services practice, says the disclosure rule "hasn't gone as far as some investors and creditors would like [in order] to understand a company's financial risks and strategies with derivatives." Even with this new rule, investors will still have a hard time pinpointing companies with derivatives problems, concurs Janet Pegg, an accounting analyst with Bear Stearns & Co.

Jeffrey Mahoney, an FASB project manager, concedes that the rule "will not resolve all concerns voiced in the pa[illegible] months about derivatives, but it is a step the right direction."

Jane Adams, a second FASB project manager, notes that the board has begun tackling the thornier accounting problems involving derivatives but has yet to decide on where to charge derivatives losses. FASB expects to issue a draft of a new derivatives accounting rule by the first half of 1995 and a final rule sometime in 1996, she says. "But a lot of tricky questions about various derivatives will have to be resolved."

Halsey Bullen, another FASB project manager, says the board still is considering such tough issues as whether the outcome of derivatives transactions (including swaps, options and forwards) should be reflected in profits, equity or held on the balance sheet as deferred gains or losses from hedging.

In Washington, Walter Schuetze, the chief accountant of the Securities and Exchange Commission, says that the SEC is "anxiously awaiting the FASB's resolution of important accounting questions involving derivatives."