



Public Pension Financial Forum
c/o School Employees Retirement System of Ohio
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July 28, 2006

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Subject: Project No. 26-4P

Dear Board and Staff:

The Public Pension Financial Forum (P2F2) is pleased to have the opportunity to respond to the GASB Project No. 26-4P, Preliminary Views document on major issues related to Accounting and Financial Reporting for Derivatives.

P2F2 was formed in 2004. The purpose of this organization is to promote excellence in public pension plan financial operations, provide educational programs of current interest to membership, promote the exchange of ideas concerning financial operations and reporting between public pension plans, and to foster sound principles, procedures and practices in the field of public pensions related to the financial operations of such plans. Membership is open to any finance employee of a public pension who supports the purposes of P2F2. The organization currently has 88 members representing 41 plans.

Discussion Issue 1:

We agree that investment derivatives should continue to be valued in the Statement of Net Assets at fair value with the changes in fair values recognized in the Statement of Changes in Net Assets. This continues the long standing accounting set forth by GASB Statement 25 & Statement 31.

Discussion Issue 2, 3 & 5 (Hedging):

Derivatives are used in a number of different investment strategies within a pension trust fund, as listed in Discussion Issue 4. Derivatives in these strategies can be used to hedge or manage certain risks within a portfolio.

It appears from the Preliminary Views document that derivatives used in an investment strategy do not meet the criteria for a hedge and would not follow the accounting and disclosure rules as described in Chapter 3. We agree with this position, but feel further clarification of this position is necessary.

Discussion Issue 4:

The disclosures and illustrations in the Preliminary Views document appear to be targeted for the governments who have historically reported derivatives at cost. P2F2 feels that the usage of derivatives by pension trust funds and the needs of our financial statement readers are quite different.

Pension trust funds are by far the largest governmental users of derivatives. Pension trust funds can typically trade derivatives on a daily basis and can, at any one time, hold hundreds or even thousands of derivative positions.

For investment purposes, pensions can use derivatives in a number of different strategies, some of which are listed below:

- Asset allocation rebalancing
- Substitute for physical securities
- Currency exposure management – hedged or active
- Active fixed income management – including managing duration
- Risk reduction
- Incremental return
- Leverage in hedge funds
- Cash overlay strategies
- Portable alpha strategies
- Active commodity investment management
- Strategies to match benefit liability cash flows

Overall derivative policies for an organization can allow for unique guidelines and strategies at the individual portfolio level. A particular pension trust fund could have hundreds of unique portfolios to achieve their investment goals. The guidelines for these portfolios may allow the usage of derivative instruments for many differing and even conflicting purposes.

Many pension trust funds invest in external investment pools and commingled funds which also may use derivatives. These external pools had previously been excluded from risk disclosures in GASB 40, but are not excluded in this Preliminary Views document. The need and reason for their exclusion from GASB 40 also exists in the disclosures on derivatives.

P2F2 feels the disclosures as laid out in the Preliminary Views document will provide an excessive amount of detail with little or no benefit to our readers. Also, we feel the summary of activity for the year will focus the reader of the financial statements on the volume of transactions, rather than the purposes for using derivatives.

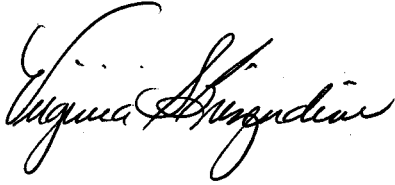
We feel pension trust funds use derivatives in a unique manner, as compared to other governments. If GASB wants to expand disclosures for these instruments, they should be designed specifically for pension trust funds and should deliver value and usefulness to

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our financial statement readers. We believe that any possible further disclosures should be tested at one or more large pension trust funds and useful illustrations should be included to highlight the proper disclosures for such funds if the benefits of the disclosures exceed the cost to comply with the standard.

Again, P2F2 appreciates the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization.

Sincerely,

A handwritten signature in black ink, appearing to read "Virginia Brizendine". The signature is written in a cursive style with a large, looping initial "V".

Virginia Brizendine, President