

27 April 2011

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
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Dear Board Members,

**RE: Exposure Draft ED/2011/01 Offsetting Financial Assets and Financial Liabilities**

We support both the effort and, generally, the result of the Boards' attempt to converge the respective standards for offsetting financial assets and financial liabilities. Specifically we agree that the presentation of gross amounts of financial assets and liabilities generally provides more information than net presentation of the same, and that such gross presentation is consistent with the conceptual frameworks within which the FASB and IASB create and/or modify standards. We also applaud both Boards' open process for standard setting, and appreciate the opportunity to participate in this phase of standards convergence. We have prepared brief responses to the questions posed in the ED, and provide those below.

**Question 1:** The proposals would require an entity to offset a recognized eligible asset and a recognized eligible liability when the entity has an unconditional and legally enforceable right to setoff the eligible asset and eligible liability and intends either:

1. To settle the eligible asset and eligible liability on a net basis
2. To realize the eligible asset and settle the eligible liability simultaneously.

Do you agree with this proposed requirement? If not, why? What criteria would you propose instead and why?

Response: We support the maintenance of net reporting in the limited conditions provided in the ED. We note that the "and intends" element of the proposed rule allows for differential treatment of similar financial arrangements, but recognize that the weight of incentives toward net presentation will mitigate the impact of this aspect. We were also concerned that the standard requires offsetting in certain circumstances, when some reporting entities may prefer gross presentation. We recognize that the "and intends" feature may provide the flexibility desired by reporting entities with a preference for gross presentation of these amounts.

**Question 2:** Under the proposals, eligible assets and eligible liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of setoff. The proposals specify that an unconditional and legally enforceable right of setoff is enforceable in all circumstances (that is, it is enforceable in the normal course of business and on the default, insolvency, or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead and why?

Response: We support the limitation of net presentation to these circumstances, as a less extensive rule may allow for the netting of gross amounts that remain at risk due to the absence of a legally enforceable right that exists in all courses of events.

**Question 3:** The proposals would require offsetting for both bilateral and multilateral setoff arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral setoff arrangements? If not, why? What would you propose instead, and why? What are some of the common situations in which a multilateral right of setoff may be present?

Response: We are concerned with the **requirement** that multilateral arrangements be given net presentation treatment if they meet the other requirements of the standard. We would prefer to see this as an optional treatment for multilateral arrangements meeting the other requirements. The netting of multilateral arrangements has the potential to obscure the complexity of such arrangements in some cases. This would result in a loss of information that might be valuable to users of the financial statements. We also suggest limiting the offsetting of multilateral arrangements to those with a master netting agreement in which all parties are contracted with all other parties in the arrangement. We are concerned with other forms of multilateral arrangements that may not leave all parties on an equal basis with regard to their specific rights and obligations to other parties.

**Question 4:** Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements and why?

Response: We agree with the disclosure requirements in paragraphs 11 and 13-15. We believe that the disclosure of assets and liabilities that almost qualify for offset (in paragraph 12, items c and d) may be contrary to what appears to be the intent of the standard. As these items will be presented in gross amounts, given their failure to qualify for offset, information regarding their “almost” status may be misleading. We do not believe that this requirement will materially effect the reporting of these items, but we would prefer that these disclosures be left to the discretion of the reporting entity. The requirement may do little more than increase the reporting burden for entities that do minimal (but non-zero) offsetting, but would be required to disclose the reasons for non-offset treatment of additional items

**Question 5:** Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements and why? Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.

Response: We feel that prospective treatment would be sufficient, and worry that retrospective treatment on implementation may provide insufficient benefit to users to justify the cost of obtaining the necessary retrospective information. We would suggest a current year comparison of treatment under the new standard to treatment under the old to give users information regarding the scale of the difference caused by implementation of the standard. With retrospective implementation to support the presentation of comparative financial statements we suggest an implementation deadline that leaves multiple years for transition.