

LETTER OF COMMENT NO.

Subject: FW: Re:FSP 39A Offsetting Amounts on Conditional Contracts-Par 10 Interpret. 39

From: Joseph S. Maresca [mailto:Joemath@Mindspring.com]

Sent: Monday, December 18, 2006 9:39 AM

To: Director - FASB

Subject: Re: Re: FSP 39A Offsetting Amounts on Conditional Contracts-Par 10 Interpret. 39

---- Original Message ---From: Joseph S. Maresca
To: director@fasb.org

Sent: Sunday, December 17, 2006 10:15 AM

Subject: Re:FSP 39A-Offsetting Amounts of Conditional Contracts

Summary:

This issuance seeks to determine whether or not a reporting entity which is a party to a master netting arrangement can offset the receivables/payables recognized on payment or receipt of cash collateral against the FV amounts recognized for derivative instruments that have been offset under the same master netting arrangement. GENERALLY, OFFSETTING ASSETS/LIABILITIES IS IMPROPER EXCEPT WHERE A RIGHT OF SET-OFF EXISTS.

The issuance permits offsetting the FV of amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and FV amounts recognized for the right to reclaim cash collateral (a receivable) or obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instrument.

The conditional criteria are that the derivative instrument must have:

- (1) 1 or more underlying predefined characteristics
- (2) The notional amounts or payment provisions or both are readily determinable with respect to the amount of the settlement
- (3) The terms permit a net settlement and readily can be settled net by a means outside the contract
- (4) The applicable Accounting Policy must be determinable and must be fairly disclosed.

Comment or Observation:

The intent of the issuance is to stay within the overall historical context that netting of receivables and payables is forbidden except where a fundamental right of setoff exists which is determinable and justifiable. Satisfaction of this overall criteria provides the condition precedent to considering whether or not a reporting entity which is a party to a master netting arrangement can offset the receivable/payable recognized on payment or receipt of cash collateral against the FV amounts recognized for derivative instruments that have been offset under the same master netting arrangement.

Par.10 of Interpretation 39.

The concept of conditionality should not affect the presentation of other types of receivables or payables carried at their determinable fair values. A conditional contract is understood generally to mean an interest rate swap, option or forward exchange contract. These instruments are executed generally in the short term and their fluctuation varies with market exchange conditions, the economic environment, the expectations of investors, the Federal Reserve, Foreign Bourses, perceptions of investors as to impending government action and a host of other judgmental criteria too numerous to set forth here.

Additional audit scrutiny may be required where this activity happens concurrent with a quasi-reorganization in bankruptcy or special monitoring requirements and pre-conditions set forth by the FDIC. The concern in a quasi-reorganization in bankruptcy is that the entity does not engage in speculative activity which may be at the center of the triggering events requiring the reorganization in the first place.

Dr. Joseph S. Maresca NYS