PNC

April 27, 2011

Leslie Siedman, Chairman
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
London, EC4M 6XH
United Kingdom

File Reference: No. 2011-100, *Balance Sheet (Topic 210) Offsetting*

Dear Ms. Siedman and Sir David:

The PNC Financial Services Group, Inc. ("PNC") appreciates the opportunity to comment on the Exposure Draft, *Balance Sheet (Topic 210) Offsetting* (the "ED"), which solicits feedback on proposed changes to offsetting assets and liabilities in financial statement presentation. PNC supports the efforts of the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") to improve the quality and comparability of financial statements. We encourage the Boards to work together to develop converged accounting standards with regard to offsetting presentation. Our general comments and our answers to the Boards' specific questions are presented below.

General Comments

Paragraph BC10 of the ED states the objectives of the proposed accounting changes are to provide information about an entity's assets and liabilities that is useful for assessing an entity's liquidity and solvency, as well as the nature and amounts of an entity's economic resources and claims against the entity. Further, the Boards state that presenting gross amounts of derivative assets and liabilities are more relevant to users of financial statements for assessing the liquidity and solvency of an entity.

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We question the Boards' conclusion that gross presentation on the financial statements better presents the nature and amounts of an entity's economic resources and claims against the entity, as well as information about an entity's liquidity and solvency. Derivative transactions would be most significantly impacted by the proposed guidance. However, derivative practices, which include exchange-trades, master netting arrangements, and collateral support agreements provide robust risk mitigation resulting in only net exposure with counterparties. Under master netting arrangements, exposure is on a net basis even in a default scenario as we are not aware of instances in which master netting agreements were found to be unenforceable in these circumstances. Further, under collateral support agreements, when required, collateral moves between counterparties within a day of request; thus, resulting in little liquidity risk for either counterparty. We believe balance sheet presentation for derivative transactions should take into account these mechanisms which transform the credit and liquidity characteristics of derivative exposure from a gross basis to a net basis.

The Boards support gross presentation based on the principle that financial reporting should present assets and liabilities separately to be consistent with their characteristics as resources or obligations of an entity. However, we believe the primary purpose of this tenet should be to aid financial statement users is assessing an entity's prospects for future cash flows; to disclose the nature and amounts of economic resources; to identify claims against the entity; to identify liquidity and solvency; and to predict how future cash flows will be distributed among those with a claim. For derivative transactions, separate (i.e. gross) presentation of derivative assets and liabilities misinforms with regard to these purposes. For example:
- An entity's liquidity profile would be overstated due to the exclusion of collateral amounts
- The resources of an entity would be overstated because some resources would be subject to claim by derivative counterparties

Our position is supported by the Boards' acknowledgement that financial statement users have not expressed a need to see gross presentation on the statement of financial position. The ED (under *Why Are the FASB and the IASB Publishing This Exposure Draft?*) states: "the Boards found no consensus among users on the usefulness of presenting gross information or net information about eligible assets and liabilities in the statement of financial position." Because U.S. accounting standards, particularly as it relates to derivative transactions, require reconciliation between gross and net amounts, we question the need to change existing U.S. GAAP offsetting guidance.

Changing accounting requirements to force gross presentation on the face of the financials, with supplementary net information in the financial statement footnotes, reverses the current presentation (for many entities) of net on the face of the financials with supplementary gross information in the footnotes. Although, in totality, either approach may provide equivalent information, further to what we have discussed above, we note the proposed change in rules would present a significant operational burden for many entities. To apply the proposed guidance, entities must examine and potentially change cash settlement processes, collateral maintenance arrangements, brokerage practices, and transaction clearing procedures. Moreover, entities would be forced to significantly modify reporting systems where transactions are posted net. We do not believe the operational burdens to implement the proposed guidance outweigh the perceived benefits.

We do not believe current U.S. accounting guidance and practices with regard to offsetting are deficient as, we believe, liquidity and credit risks are adequately presented. In addition, we believe that financial statement users already receive, through footnote disclosures, information needed to understand the components of balances currently presented on a net basis. Therefore, we urge the Boards not to proceed with the proposal. Our responses to the Boards' specific questions are 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: See our general comments above where we disagree with the proposed criteria which would force gross presentation on the statement of financial position.

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 believe ISDA Derivative Agreements may meet the legally enforceable criterion and urge the Boards' to explore this matter with ISDA. Additionally, we do not agree with the simultaneous settlement criterion as we believe this criterion is extremely restrictive and not practical given today's processes. If the Boards move forward with this proposal, we believe the settlement criterion must be adjusted for these points within a final standard that is reflective of how entities manage their business.

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 agree that offsetting criteria should be applied to bilateral and multilateral arrangements.

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 support carrying forward existing disclosure requirements under U.S.GAAP which requires gross presentation in the footnotes. We would support enhancement to those disclosure requirements to the extent additional disclosure would provide useful information to financial statement users.

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 do not agree with retrospective adoption of the proposed standard. The large majority of historical offset balances are presented at fair value. Further, we do not believe a presentation of prior period fair values will be useful for a financial statement user's current analysis, particularly when considering the operational burden and cost to create such a presentation. We believe determining fair values in prior periods would create a significant operational burden for adopters because it would require entities to reverse the application of collateral and master netting agreements and determine prior period market assumptions related to the gross amounts.

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We appreciate the Board's request for feedback on this matter and appreciate the opportunity to share our views with the Boards and staff. We welcome any questions or comments you may have. Please contact me with any questions about PNC's comments at 412-762-0490.

Sincerely,

John (JJ) Matthews
Director of Accounting Policy
The PNC Financial Services Group, Inc.

cc: Mr. Richard Johnson
        Executive Vice President and Chief Financial Officer
        The PNC Financial Services Group, Inc.

        Mr. Gregory Kozich
        Senior Vice President and Controller
        The PNC Financial Services Group, Inc.