

April 28, 2011

Ms. Susan M. Cosper Director of Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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

Re: File Reference Number 2011-100, Proposed Accounting Standards Update, Balance Sheet - Offsetting and ED/2011/1 Offsetting Financial Assets and Financial Liabilities

Dear Ms. Cosper and Sir David Tweedie,

Citigroup appreciates the opportunity to comment to the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") on the proposed guidance for the offsetting of financial assets and financial liabilities (the "Exposure Draft").

Citigroup supports the efforts of the FASB and IASB to converge guidance for the offsetting of financial assets and financial liabilities as it addresses a significant discrepancy between U.S. GAAP and IFRS. However, we believe the Boards have selected a presentation model that does not result in an improvement to U.S. GAAP, and introduces significant additional complexity to the accounting for financial instruments, while other active projects in this area seek simplification.

We believe the presentation model for offsetting under existing U.S. GAAP represents the highest quality standards for offsetting on which convergence should be based. The presentation model under U.S. GAAP has been tested over a long period of time, including the recent economic downturn, and continues to be upheld in the market as best practice.

We question whether the offsetting model proposed in the Exposure Draft (which is primarily based on the current IFRS guidance that severely restricts offsetting) is the method preferred by a majority of financial statement users. A recent survey of users conducted by the Boards yielded very mixed results with many users favoring the current U.S. GAAP offsetting model. In their

efforts to develop and defend an offsetting model, we believe the Boards have unfortunately relied on a narrow interpretation of guidance from the Concepts Statements, instead of thinking more broadly about what is the most relevant and faithfully representative presentation, which we believe is provided by the current U.S. GAAP offsetting model. If additional information is sought by financial statement users, we believe this need can best be fulfilled with enhanced disclosures to the financial statements.

Citigroup is a supporter of the Boards' project to seek convergence in this area as consistent financial position presentations would be a significant improvement in financial reporting on a global basis. Citigroup believes the proposed model in the Exposure Draft fails to consider the different types of derivatives transactions, the forums in which the transactions occur and settle, and the risks addressed by collateral. These forums may also change dramatically once proposed regulatory rules become final, which may cause the offsetting framework in the Exposure Draft to become less relevant or obsolete. Therefore, we urge the Boards to reconsider not only the proposed model based on a thorough understanding of the derivatives markets and legal frameworks, but the appropriate timing of re-deliberations as well. Prior to conducting re-deliberations and issuing a final standard, we believe it is prudent for the Boards to first wait until the current era of unprecedented change in the over-the-counter derivatives market stabilizes. Then the Boards can finalize an offsetting model with confidence that there will not be immediate unintended consequences.

The flawed offsetting model in the Exposure Draft will either obscure or create nonexistent risks which will ultimately mislead financial statement users. If faced with an unfortunate choice of converging under the proposal in the Exposure Draft or retaining the presentation difference between U.S. GAAP and IFRS, Citigroup strongly favors the Boards' dropping this proposal in the offsetting project, and providing guidance for only enhanced disclosures that facilitate comparison.

Our further comments are outlined in greater detail through responses to the specific questions raised in the Exposure Draft, included in the following Attachment.

We would be pleased to discuss our comments with you at your convenience. Please feel free to call me in New York at (212) 559-7721.

Sincerely,

Robert Traficanti

Robert Inaficanti

Deputy Controller and Global Head of Accounting Policy

# **Attachment**

#### 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?

Citigroup disagrees with the proposed requirement when further considering the framework finalized recently in Statement of Financial Accounting Concepts No. 8, *Conceptual Framework for Financial Reporting*, a joint effort by the FASB and IASB.

This Concept Statement provides the following:

Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to assess the reporting entity's liquidity and solvency, its needs for additional financing, and how successful it is likely to be in obtaining that financing. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be distributed among those with a claim against the reporting entity. (OB13)

The fundamental qualitative characteristics [of financial information] are *relevance* and *faithful representation*. (QC5)

We believe the proposed requirements in the Exposure Draft neither provide information that will assist users in assessing a reporting entity's liquidity and solvency<sup>1</sup>, nor provide information that is both relevant and faithfully representative. We are concerned that the inherent limitations of the proposed offsetting requirements are due, in part, to the Boards' deliberations based on insufficient information about the derivatives market.

We do not agree with the proposed requirements because we believe the current guidance in the Exposure Draft would be applied in practice with a result that is inconsistent with the stated principles<sup>2</sup> outlined in the Exposure Draft. The proposed requirements provide a singular rules-based approach that focuses on criteria that would fail to differentiate the liquidity and solvency risks and expected cash flows of a broad spectrum of derivative transactions. We favor offsetting guidance that sets out criteria more closely aligned with the principles in the Exposure Draft, which we believe exists in U.S. GAAP.

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<sup>&</sup>lt;sup>1</sup> Solvency would be inclusive of credit risk as it can be defined as the ability to pay all of one's legal debts.

<sup>&</sup>lt;sup>2</sup> Exposure Draft, paragraph 4

Citigroup requests that the Boards consider the following as they re-deliberate the proposed guidance in the Exposure Draft:

1. Derivatives transactions subject to the offsetting rules of ASC 210 may be subject to master netting agreements *and* collateral support annexes, which address both solvency and liquidity risk.

A master netting agreement provides for the legally enforceable right to offset derivative transactions in the case of a contingent event (e.g., default or bankruptcy), often referred to as close out netting and, separately and when elected, provides for the legally enforceable right to offset cash flows in the ordinary course of business, often referred to as payment netting. This "enforceable right to offset" within the master netting agreement mitigates solvency risk between two counterparties as the two counterparties will no longer have exposure to loss on a gross basis.

A collateral support annex that supplements the master netting agreement summarizes the collateral margining terms for derivative transactions that are covered by the master netting agreement. As demonstrated in the example below, a collateral support annex further mitigates solvency risk for the net open derivative position and overall liquidity risk between the two counterparties.

Both the master netting agreement and collateral support annex are common legal tools in the derivatives market, which protect an entity's right or obligation to the net amount and reflects an entity's expected cash flows. We believe presenting derivatives transactions that fall under a master netting agreement and collateral support annex net on an entity's balance sheet provides the best representation of an entity's solvency and liquidity risk and provides information that is most relevant and faithfully representative. To support this view, please consider the following fact pattern:

- Bank A and Bank B are subject to a master netting agreement and collateral support annex. The collateral support annex requires the counterparties to exchange cash collateral for the net open derivative position.
- Bank A has a derivative receivable of \$100 due in 10 years with Bank B and a derivative payable owed to Bank B of \$30 due tomorrow.
- Bank A currently has a net \$70 derivative receivable position with Bank B and Bank B has provided \$70 of cash collateral to Bank A. Bank A records the cash collateral and a payable to Bank B to return the collateral.
- When Bank A makes a payment of \$30 to settle the derivative payable tomorrow, Bank B will be required to immediately (typically, either later the same day or the following day) return \$30 to post cash collateral on Bank A's net open receivable balance which is now \$100.
- Thus, there is no net movement of cash simply due to the settlement or maturity of the derivative liability due to Bank B and Bank A's liquidity risk before or after the \$30 cash payment is nil.

To present the transaction above in gross amounts would be misleading to the users of the financial statements. Bank A's assets and liabilities would increase an additional \$30, but claims to those assets under bankruptcy laws would only be available to the derivative counterparty under the legally enforceable master netting agreement, not to the general creditors of Bank A.

Assuming the master netting agreement in this example provides an unconditional right to offset derivative transactions, the proposed requirements of the Exposure Draft would force gross presentation simply because the periodic contractual settlements of the derivatives and ongoing cash margining are not executed simultaneously. Due to the cash collateral, Bank A does not have liquidity risk to Bank B for the cash flows under the derivative receivable due in ten years. To present these transactions on a gross basis would be to present a significant solvency and liquidity risk that does not exist.

We ask the Boards to reconsider their proposed requirements. We encourage the Boards to consider the economic substance of the underlying operational settlement practices, which have been designed to ensure that credit and liquidity risk is mitigated between counterparties. As indicated in the above example, solvency and liquidity risk is addressed and maturity dates of the individual transactions become irrelevant. Collateralized derivative transactions with financial institutions are common on exchanges, clearing house forums and the over-the-counter market. Guidance should be structured to better address the solvency and liquidity risk of these transactions. We would be happy to work further with the staff on these concepts.

The failure to reconsider collateralized derivative transactions would potentially mislead users of financial statements. Assuming the proposed netting model is implemented, the balance sheets of two peer financial institutions could appear to be very similar when they have the equivalent amount of assets and liabilities. However, one financial institution, which increases its leverage strictly through cash borrowings used to purchase illiquid investments, will bear a significantly greater solvency and liquidity risk than another financial institution that presents the same balance sheet footings, but transacts in collateralized derivatives that must be presented gross under the requirements of the Exposure Draft. Because the financial position and various ratios may be substantially the same, the user would have a more challenging time understanding the significant differences in the risk profiles of these two financial institutions.

The basis for conclusions to FIN 39 (ASC 210), paragraph 21, states the following:

The Board decided to permit offsetting of the fair value recognized for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts if they are executed with the same counterparty under a master netting arrangement. That arrangement effectively consolidates individual contracts into a single agreement between the parties. The failure to make one payment under the master netting arrangement would entitle the other party to terminate the entire arrangement and to demand the net settlement of all contracts. The Board believes that an exception to the requirement of paragraph 5(c) of this Interpretation, which states that "the reporting party intends to set off" is justified when a master netting arrangement exists because the net presentation discloses the amount of credit risk exposure under that arrangement. The Board decided that, given a master netting arrangement, presentation of the aggregate fair values of the individual contracts executed under that arrangement would not provide more information about the uncertainty of future cash flows from those contracts than net amounts would.

We believe the basis above is well-reasoned and accurate; thus, the current Boards should reconsider these conclusions in their re-deliberations. Importantly, that paragraph demonstrates that the FASB understood the single contract concept of a master netting agreement and that all transactions under a master netting agreement form one contract.

While individual transactions under a master netting agreement have their separate unit of account for transaction accounting (e.g., derivative hedge accounting), it highlights that the exposure under that master netting agreement is the net amount of all transactions and providing such information in the aggregate would not provide more information to users of financial statements.

We understand the Boards may be concerned about liquidity risk which was not explicitly discussed in the above paragraph from the basis for conclusions in FIN 39. However, we encourage the Boards to consider that the derivatives market has since evolved from the initial issuance of FIN 39, almost twenty years ago, and the collateral support annex, which did not exist at that time, does address an entity's liquidity risk in the derivatives market and solvency risk for the net open derivative position of a master netting agreement. We object to a conclusion that only solvency risk (and not liquidity risk) is mitigated for derivatives transacted under a legally enforceable master netting arrangement and credit support annex.

- 2. The proposed guidance puts forth, in paragraph C2, that an entity's legal right of setoff may be for all or a portion of an amount and includes, in paragraph C9, that some contracts provide for automatic setoff of cash flows when they occur on the same day and in the same currency. We recognize this language as being very similar to the operational practice referred to as payment netting in the master netting agreement, further described above. However, given the proposed requirement and related guidance in the Exposure Draft, we anticipate many practice issues when applying the proposed guidance to master netting agreements that have elected payment netting. Please consider the following example:
  - Assume Counterparty A has executed two interest rate swap contracts with Counterparty B.
  - The Counterparties have executed a master netting agreement (which is legally enforceable in the ordinary course of business under the relevant jurisdiction) and have elected payment netting under the agreement to make such rights of offset unconditional.
  - The interest rate swaps were executed in different time periods and their respective fair values are equal to the present value of their future payments.
  - For purposes of isolating the anticipated practice issues, collateral requirements and related journal entries are ignored for this example.

The scheduled payments and related fair values for both interest rate swaps at the measurement date are as follow. Amounts shown in PMT columns are net cash receipts (cash payments) for each interest rate swap at each payment date.

	Fair Value	PMT1	PMT2	PMT3	PMT4	PMT5	PMT6
	Asset						
	(Liability)						
Swap	50	(20)	(10)	35	25	15	5
A							
Swap	(40)	(35)		(15)		10	
В							

Citigroup anticipates preparers of financial statements may present the two derivatives above using four possible methods:

	Potential Methods	Amounts Reported in the Statement of Financial Position
•	Method 1 - Derivatives fall under a master netting agreement and the intent exists to net because both parties have elected payment netting pursuant to the contract; net the fair values of both transactions	10 Derivative Asset
•	Method 2 - Pierce the unit of account; Net payments by specific payment date where offset of cash flows occur	35 Derivative Asset <sup>3</sup> (25) Derivative Liability <sup>4</sup>
•	Method 3 - Pierce the unit of account to identify whether a net payment could be made at any payment date under the contracts; Net payments by specific payment date and group receivables and payables	75 Derivative Asset <sup>5</sup> (65) Derivative Liability <sup>6</sup>
•	Method 4 - Pierce the unit of account to identify whether a net payment could be made at all payment dates during life of the contracts	50 Derivative Asset <sup>7</sup> (40) Derivative Liability

Citigroup believes Methods 2 and 3 would be an inappropriate application of U.S. GAAP and IFRS. Method 3 shows greater amounts on the balance sheet than if the two derivative transactions were separately presented gross, which we believe is entirely inaccurate. However, the misapplication of U.S. GAAP and IFRS for Method 2 and Method 3 derives from dismantling the unit of account concept; whereby the derivative transaction's unit of account is broken down, considering the individual payments as an asset or liability and ignoring the legal transaction under the master netting agreement. We believe the legal derivative transaction must be respected, accounted for in its entirety, as individual payment amounts cannot be legally separated and considered separate resources or claims of the entity.

Therefore, Method 1 and Method 4 are the remaining methods available for the application of the proposed guidance and Citigroup believes Method 1 would be most applicable. Regardless of maturity dates and payment dates, an unconditional obligation exists to net all future cash receipts and payments for two derivative transactions, such that the two separate cash flow streams have become one net cash flow stream that ends on the latter maturity date of the two derivative transactions.

To require payment dates and maturity dates to match exactly, as in Method 4, results in offsetting guidance that becomes inoperable (i.e., it would be rare to identify perfectly

<sup>&</sup>lt;sup>3</sup> Derivative Asset calculated as fair value of Swap A less (15) associated with PMT3 of Swap B.

<sup>&</sup>lt;sup>4</sup> Derivative Liability calculated as fair value under Swap B less (15) associated with PMT3 under Swap B.

<sup>&</sup>lt;sup>5</sup> Derivative Asset calculated as sum of PMT3 through PMT6 (all net positive cash flows).

<sup>&</sup>lt;sup>6</sup>Derivative Liability calculated as sum of PMT 1 through PMT2 (all net negative cash flows).

<sup>&</sup>lt;sup>7</sup> Since net payments don't occur on all respective dates, Swap A and Swap B are not eligible for offsetting.

offsetting derivative instruments). Even with exact payment dates and maturity dates, underlyings to the derivatives may create an instance where a cash flow is not required under a particular payment date for one derivative, which essentially results in the view that derivative netting should not be applied in the extreme. We do not believe this is the Boards' intent.

We anticipate this "unit of account" issue with payment netting to become operationally complex given the Exposure Draft's requirement to present derivatives net (i.e., it is no longer optional). Financial institutions will have to review a large volume of over-the-counter derivative transactions to identify those transactions that have elected payment netting and implement significant changes to systems and data capture processes to thoroughly analyze all future cash payments (scheduled out by day through maturity of the derivatives transactions) between an entity and its counterparties. This is an especially important issue as it relates to over-the-counter derivatives which are often executed at high volumes and involve a variety of different types of contracts and currencies that span many years. Citigroup does not see this potential practice as a beneficial change to users of financial information and requests the Boards to clarify this specific area of the proposed guidance.

3. The proposed requirements in the Exposure Draft introduce the concept of simultaneous settlement and provide further guidance that this criterion is met when settlements take place at the same moment; settlements that take place over a period of time will not meet this criterion even when there is no potential for any change in the value of the eligible asset and eligible liability and the period between settlements is brief (paragraph C11).

We believe this narrow rule is not reflective of the principles outlined in the Exposure Draft, particularly as they apply to repurchase agreements and reverse repurchase agreements (in the aggregate, "repurchase agreements"). We are concerned that the Boards deliberated the concept of simultaneous settlement without sufficient information on the settlement processes in the repurchase agreements markets, and interpret the proposed guidance to change not only U.S. GAAP, but IFRS as well.

Repurchase agreements are generally entered into directly between two counterparties and then cleared through a clearing house. Some clearing houses, such as the Government Securities Clearing Corporation, will settle transactions net at the end of the day, while other clearing houses, such as the London Clearing House, will settle transactions in batches (i.e., cash payments and receipts will be processed at different points during the day). For example, cash receipts may be processed at 10:00 a.m. and cash payments at 2:00 p.m. on the same day. The purpose of this batch processing is to accommodate a high volume of transaction settlements, resulting in the mitigation of liquidity risk. To address intra-day credit risk, day-light overdraft protection, lines of credit, and excess collateralization are provided.

Citigroup believes the amounts settled on a batch basis on a given day per the fact pattern above do represent a net amount of cash flows and we request the Boards to reconsider the

definition of "simultaneous settlement" in the Exposure Draft. Settlements occur within the day and solvency and liquidity risk are mitigated. Citigroup believes the guidance in ASC 210-20-45-11 (FIN 41, paragraph 3) should be carried forward for repurchase agreements as the existing guidance is consistent with the principles in the Exposure Draft and Concepts Statement.

## 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?

We do not agree with the proposal that requires the right to offset to be unconditional as a determinative factor for the net presentation of financial assets and financial liabilities. We believe that whether the right to offset is conditional or unconditional becomes irrelevant when solvency and liquidity risk can be addressed without regard to the nature of the right to offset.

As detailed in our response to Question 1, the derivatives market has addressed solvency and liquidity risk effectively through the use of a master netting agreement and collateral support annex. When both legal tools are in place, solvency and liquidity risk is mitigated for counterparties, even when the right to offset is conditional. The entity's right to net cash flows and the net presentation of such derivatives better reflect the entity's expected cash flows, their resources, and the claims to those resources.

We request that the Boards retain the conditional right to offset, which is market practice for derivative market participants, and focus more on whether solvency and liquidity risk is mitigated in the derivatives market that has evolved since the initial U.S. GAAP models were developed. With complete information about the derivatives market, we believe a relevant and faithfully representative derivative netting model can be achieved without consideration of an unconditional right as detailed in the proposed requirements.

#### 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?

We do not believe that bilateral arrangements should be treated differently from multilateral setoff arrangements when both arrangements meet the offsetting criteria. To treat each arrangement differently would undermine the principles set forth for the presentation of financial statements. A multilateral right of setoff may exist when specific contracts are established that include not only the counterparties to the contract but specified subsidiaries of those

counterparties. For example, depository institutions may have multilateral setoff arrangements for cash accounts with an entity's subsidiaries contemplated under a specific contract.

## 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?

Citigroup believes amending and expanding the disclosure guidance is the best method for fulfilling any need of financial statement users for gross information about financial assets and financial liabilities subject to the right of offset.

In conjunction with our view that the proposed netting model should be reconsidered to accurately address the solvency and liquidity risk of an entity, we therefore believe the proposed disclosure requirements fail to identify these risks for users of the financial statements.

Citigroup believes that any disclosures related to netting should start with the types of financial assets and financial liabilities where the entity manages its risks based on the ability to set off. The disclosure requirements should then isolate those transactions that effectively mitigate both liquidity and solvency risks from those that do not within those types of financial instruments. Cash and non-cash collateral (including the types of eligible non-cash collateral) should be differentiated for the users of financial statements.

For recommendations on the specific disclosure requirements stated in the Exposure Draft, we suggest the following changes to enhance the effectiveness of the disclosures:

- The scope of the proposed disclosure requirements includes all financial assets and financial liabilities. Including all financial assets and liabilities in the disclosure tables, even those without rights of setoff, will provide less transparency to the financial statement user and significantly increase the cost to preparers.
- Separate identification of portfolio level adjustments should be excluded from the
  requirements as the purpose of the disclosures is to provide greater transparency into the
  netting of the financial assets and financial liabilities. Portfolio level adjustments are a
  measurement attribute that are addressed in other disclosure requirements. To disclose
  them separately in the netting table and allocate them by class will be duplicative and will
  not be beneficial to the users of the financial information.
- Paragraph 12(c) implies that an entity must search through all contracts of financial assets and financial liabilities to identify unconditional rights of offset for which there is no intent to offset. If there is no intent to offset, we do not see the benefit of showing this information separately to users.
- Provide greater clarity on the reference to "class" for the disclosure table so there is consistency among financial statement preparers.

## 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.

We believe the transition requirements should be applied prospectively. We anticipate a significant effort in both enhancing our information systems and reviewing individual derivative transaction documentation and other financial transaction documentation, on a global basis, to prepare financial statements that meet the criteria outlined in the Exposure Draft. Such an effort would require at least two year's worth of efforts at a minimum.

#### Other Important Topics in the Exposure Draft

#### **Industry Guidance**

Citigroup disagrees with the proposed removal of the guidance in ASC 940-320 (netting of regular-way open trade receivables and payables) and ASC 942-305-45-1 (reciprocal balances with other banks) in the Exposure Draft. Because these significant proposed changes were not deliberated in a public forum, we do not understand the basis for eliminating this guidance. We are concerned that the Boards were not presented sufficient information about how the regular-way securities settlement process works and the impact of the decision to remove this industry guidance.

Netting payables and receivables arising from unsettled regular-way trades has been a long-standing practice for broker-dealer entities. Transactions of this nature are generally processed through clearing and settlement organizations. Broker-dealers will often not know the counterparty on the other side of the transaction as interaction is limited to the clearing and settlement organization. To apply the proposed netting guidance in the Exposure Draft would require entities to penetrate clearing/settlement organizations in search of counterparty information related to each transaction. Such a process would be extremely complex from an operational perspective, if feasible, and would not be cost/beneficial to the users of the financial statements as these net payables or receivables are settled in a short time from the balance sheet date. If any transactions were to fail, they are currently identified separately and presented gross in the balance sheet. We recommend retaining this specific guidance for broker-dealers.

Netting reciprocal account balances for financial institutions is another long-standing practice without controversy. If a financial institution has overdrafts and other depository accounts with another financial institution that can be offset, then this specific guidance for this type of practice should be retained. The removal of this guidance provides no benefit to users of financial statements and we request that the Boards retain this specific guidance for depository institutions.

## Cost-Benefit Analysis

Section II, D of the FASB *Rules and Procedures*, amended and restated through February 28, 2011, requires the following in guiding principle #3:

To issue standards only when the expected benefits exceed the perceived costs. While reliable quantitative cost-benefit calculations are seldom possible, the FASB strives to determine that a proposed standard will fill a significant need and that the perceived costs it imposes, compared with possible alternatives, are justified in relation to the overall expected benefits.

The cost-benefit justification is generally documented in Exposure Drafts and final guidance; however, no such section exists for this Exposure Draft, resulting in the appearance that a thorough justification has not been considered or provided.

We believe the following impacts that result from the Exposure Draft should be further considered and the resulting cost-benefit analysis should be properly documented in the final guidance:

- The significant need for change in U.S. GAAP proposed by the Exposure Draft and the determination that gross presentation is preferred by a majority of users.
- Operational costs incurred by preparers to modify information systems.
- Operational costs incurred by preparers to assess each asset and liability that is eligible for netting and identify those required to be netted (e.g., assess each exchange or clearing house for "simultaneous settlement").
- Potential regulatory costs incurred by preparers that may include increased regulatory capital requirements and limitations on certain standard business activities (e.g., adhering to leverage ratios).
- Tax laws for preparers in certain jurisdictions incorporate the size of the U.S. GAAP balance sheet. Because the Exposure Draft will result in a dramatic increase in balance sheet footings for certain firms, there may be significant increases in taxes paid despite no change in economics.