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January 31, 2007



Mr. Lawrence Smith Director TA&I-FSP Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Re: Proposed FSP FASB Interpretation No. 39-a, Offsetting of Amounts Related to Certain Contracts

Dear Mr. Smith:

We are pleased to comment on the Financial Accounting Standards Board's (FASB or the Board) FASB Staff Position FASB Interpretation No. 39-a, Offsetting of Amounts Related to Certain Contracts (FSP FIN 39-a or Staff Position). Ernst & Young generally supports the issuance of this Staff Position to permit the offsetting of fair value amounts recognized for the right to reclaim cash collateral (receivable) or the obligation to return cash collateral (payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with paragraph 10 of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (Interpretation 39). As paragraph 10 of Interpretation 39 provides an exception to allow the offsetting of fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangements regardless of the intent to offset, the inclusion of the fair value amount of the associated receivable and payable recognized for cash collateral is a logical extension of such exception and results in the presentation of the net credit exposure to the counterparty. Although we generally support the Staff Position, we have the following other comments.

Determination of Whether the Collateral Related Receivable and/or Payable are Recognized at Fair Value

The Board should consider providing implementation guidance for determining whether the receivable and payable recognized for the right to reclaim and return cash collateral, respectively, under master netting arrangements as detailed in the Staff Position are recorded at fair value. This guidance should include examples of master netting arrangement terms and their effects on determining the fair value of the receivable/payable. For example, the guidance should address



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the frequency for which the collateral amount and interest rate must be reset in order for the receivable or payable to be considered fair value. Also, the Board should clarify if the Staff Position requires that the receivable or payable be recorded at fair value or if an amount that approximates fair value satisfies the criteria for offsetting. Without additional implementation guidance, there is potential for inconsistent application in determining whether the receivable and payables related to these arrangements are carried at fair value and thus allowed to be offset.

## Transparency in Derivative Disclosures

We note that the Board's current exposure draft, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (133 Exposure Draft), was written with a primary purpose of providing the users of financial statements with greater transparency into the overall effect that derivative instruments have on an entity's financial position, results of operations, and cash flows. Allowing the netting of derivative positions and the related collateral receivables and payables seems to detract from the transparency that is a primary purpose of the 133 Exposure Draft. We recommend the Board consider whether additional disclosure requirements under the 133 Exposure Draft are necessary to provide greater transparency in light of the expansion of the right of offset contemplated by the Staff Position.

## Clarification of Policy Election

The Board should consider clarifying the policy election allowed under the Staff Position. Paragraph 10 of the Staff Position states that, "A reporting entity that determines that the amount recognized upon payment or receipt of cash collateral is not a fair value amount shall not be precluded from offsetting the derivative instruments. The reporting entity's choice to offset or not must be applied consistently." Footnote 5 to paragraph 10 states, "A reporting entity shall not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized upon payment or receipt of cash collateral against that net amount." The language indicating that an entity is not precluded from offsetting the derivative instruments when the amounts recognized for the receipt or payment of cash collateral are not fair value could be interpreted to mean that the reporting entity has a choice to offset the derivative instruments based on the determination of whether the collateral is recognized at fair value, when in fact, the reporting entity is required to offset the derivative instruments based upon its policy election. We believe this language could be clarified as follows:

"A reporting entity may elect an accounting policy to offset fair value amounts recognized for derivative instruments meeting the criteria in paragraph 10. The reporting entity's election to offset the derivative instruments must be applied consistently. If the reporting entity elects to offset the derivative instruments, fair



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value amounts recognized upon payment or receipt of cash collateral must also be offset against the net derivative position. If the reporting entity elects to offset the derivative instruments and determines that the amounts recognized upon payment or receipt of cash collateral are not fair value, the reporting entity must still offset the derivative instruments in accordance with its policy election, but may not offset the amounts recognized upon payment or receipt of cash collateral against the net derivative position."

We appreciate the opportunity to present our comments and would be pleased to discuss any aspect of this letter with the Board or staff at your convenience.

Sincerely,

Ernet + Young LLP