



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

April 28, 2011

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Balance Sheet Offsetting (File Reference No. 2011-100)

The Investment Company Institute* appreciates the opportunity to comment on the proposed accounting standards update relating to balance sheet offsetting (exposure draft or ED). The exposure draft would require an entity to disclose information about offsetting eligible assets and eligible liabilities and related arrangements (such as collateral agreements) to enable financial statement users to understand the effect of those arrangements on its financial position.

We support the Board's efforts to require disclosure of the effect of offsetting on financial position. In addition, we support enhanced disclosure pertaining to collateral agreements and how they can be used to mitigate exposure relating to financial instruments, especially derivatives. We are uncertain, however, on the circumstances in which the proposed tabular disclosure must be provided and the scope of the collateral agreements to be included. We believe that implementation of the standard will require extensive analysis of contracts and settlement systems in order to determine whether amounts are to be presented gross or net and encourage the Board to provide appropriate lead time before the final accounting standards update is effective.

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?*

We note that mutual funds and other SEC registered investment companies provide a complete listing in their financial statements of all financial instruments, including derivatives contracts open at the balance sheet date. For derivatives, the listing identifies for each contract i) the terms (including the underlying reference asset or index, the counterparty, and the expiration), ii) notional amount, and iii) current fair value. The listing of open contracts is typically provided by

* The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$13.0 trillion and serve over 90 million shareholders.

type of contract (*e.g.*, swaps, forwards, futures, *etc.*). Often this listing provides gross unrealized appreciation and gross unrealized depreciation amounts by type of contract and these gross amounts are recognized as assets and liabilities in the statement of financial position. Funds also provide all derivatives related disclosures required by ASC 815 *Derivatives and Hedging*, and identify in the schedule of investments those securities that are pledged to cover margin requirements. We believe current derivatives disclosures provided by funds are comprehensive in nature and effectively illustrate the effect of offsetting on financial position. We recommend that any final standard enable funds to utilize disclosures currently provided elsewhere in the financial statements in lieu of the specific tabular presentation contemplated in the ED.

We seek clarification on the circumstances in which the proposed disclosure must be provided and the scope of the collateral agreements to be included.

- If an entity has only conditional rights of setoff and therefore does not net financial assets and liabilities in the balance sheet, is the proposed tabular disclosure required? If an entity has no rights of setoff (either unconditional or conditional) and therefore does not net financial assets and liabilities in the balance sheet but has pledged or received collateral, is the proposed tabular disclosure required?
- Is the proposed disclosure required where an entity has eligible assets and eligible liabilities that are subject to a right of setoff, but the entity has not obtained or pledged cash or other financial instruments as collateral?
- The proposed disclosure is to be provided by “class of financial instrument.” Are the classes used in the proposed disclosure intended to conform to the classes used in the fair value measurement disclosures provided under ASC 820 *Fair Value Measurements and Disclosures*? Mutual fund disclosures provided in response to ASC 820-10-50-2 often vary by fund type. For example, an equity fund may provide disclosure by industry. A balanced fund may provide disclosure by security type (*e.g.*, common stocks, preferred stocks, corporate bonds, mortgage-backed securities, *etc.*). An international fund may provide disclosure by country. We anticipate funds will provide the proposed disclosure by derivative type (*e.g.*, swaps, forwards). We believe management should have the ability to determine the most meaningful presentation and that the presentation by class need not conform to that used for purposes of 820-10-50-2.
- Is cash and other financial instrument collateral as used in paragraph 12.f. limited to collateral that is held and recognized? Should it also include collateral held, but not recognized? For example, a counterparty (obligor) may post collateral in a restricted account that is only available to the reporting entity in the case of default. Is such collateral to be included in the proposed tabular disclosure?
- As it relates to exchange traded derivatives, a daily variation margin serves as a form of partial settlement of the contract, and is currently recognized on the balance sheet. In addition, there is minimal credit risk related to these contracts, as they are transacted and settled through an exchange. It seems the proposed tabular disclosure would not provide useful information for these types of contracts and should be excluded from the final

standard.

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 implementation of the ED will require funds and other entities to analyze and document their contracts, related netting arrangements, and settlement systems. We believe such effort will extend beyond the accounting/treasury function into other business units and outside the reporting entity. We recommend that any final standard provide at least one full year after issuance before it must be implemented.

We appreciate the opportunity to comment on the ED and would be pleased provide any additional information you may require. Please contact the undersigned at 202/326-5851 if you have any questions.

Sincerely,

/s/

Gregory M. Smith
Director – Operations/
Compliance & Fund Accounting