
**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision**

June 10, 2011

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

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

Dear Ms. Cospers:

This letter from the staffs of the five federal financial institution regulatory agencies (the Agencies) supplements our comment letter dated May 6, 2011, on the Exposure Draft, *Balance Sheet: Offsetting*, issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (together, the Boards). Our earlier comment letter focuses on our financial reporting concerns as users of financial statements and not on the proposal's regulatory capital implications. However, in recent deliberations of the Boards, the Agencies have become concerned with the accuracy of the discussions with regard to regulatory capital regimes. Accordingly, our purpose for this supplement is to factually describe the key regulatory capital ratios that are based on total assets, including the denominator of the banking agencies' Tier 1 leverage ratio and tangible equity ratio as well as the denominator of the credit unions' net worth ratio, and the relationship between the offsetting proposal and these ratios. As stated in our earlier comment letter on the proposal, the total assets currently used in these ratios, which in some cases is mandated by statute, has very few adjustments from total assets as determined in accordance with U.S. generally accepted accounting principles (GAAP).

Although the appendix is designed to be used as a reference tool during the Boards' future discussions involving regulatory capital ratios, we remain available to discuss these ratios if that would be helpful.

Sincerely,

Steven P. Merriett
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cc: Sir David Tweedie, International Accounting Standards Board

APPENDIX

- The current U.S. banking leverage ratio is defined as the ratio of Tier 1 capital to total or average total consolidated assets. Average total consolidated assets means the quarterly average total assets as reported in a financial institution's Call Report or Thrift Financial Report (TFR) minus those assets deducted from Tier 1 capital in the numerator of the ratio. For Call Report and TFR purposes, total assets reported on the balance sheet is determined in accordance with GAAP.
- Credit unions' regulatory capital or net worth ratio is defined by statute as the credit union's retained earnings determined in accordance with GAAP divided by total assets similarly measured.
- By law, the accounting standards applicable to regulatory reports required to be filed with the Agencies by banks, savings associations, and credit unions, including the amounts reported for total assets, can be no less stringent than those prescribed in GAAP.
- The banking statute for Prompt Corrective Action (PCA) contains a tangible equity capital ratio requirement. When this ratio falls below 2 percent, certain restrictions are imposed on the activities of an FDIC-insured depository institution and, with highly limited exceptions, the institution must be placed into receivership or conservatorship within specified time frames. Under the statute, the denominator for the tangible equity capital ratio is determined using total assets. Likewise, the credit union statute for PCA contains a net worth ratio which includes a total assets denominator, and if the ratio falls below certain trigger points, it mandates prompt supervisory action by the NCUA.
- Adjustments to reported total assets used in the Agencies' capital ratio denominators are very few and strictly limited to those that correspond to the asset-based adjustments made in the calculation of regulatory capital, such as the adjustment for certain nonqualifying intangibles. The statute governing credit union regulatory capital does not permit adjustment of the total asset denominator. Given the statutory basis of various leverage ratios and the potential magnitude of necessary adjustments should the standard setters finalize the offsetting standard as proposed, we are troubled by statements indicating the Agencies could easily revise their regulatory capital standards to address:
 - The Agencies' financial reporting concerns with regard to the offsetting project and,
 - The Agencies' view that gross presentation of derivative and repurchase agreement receivables and payables overstates total assets and liabilities when legally enforceable master netting arrangements are in place.

- As proposed, the international leverage ratio described in the comprehensive set of supervisory reform measures known as Basel III substitutes a regulatory netting regime for accounting results, in part because of the current difference between U.S. GAAP and International Financial Reporting Standards netting standards and also because the regulatory netted amount was determined to be most relevant for leverage purposes.
- The U.S. banking agencies intend to implement the international leverage ratio consistent with Basel III timelines through the agencies' notice and comment rulemaking procedures. Any modifications to the U.S. banking leverage ratio would be made through that process and would need to conform to a number of statutory PCA requirements. The NCUA has no authority to adjust the credit union net worth ratio.
- Although it is expected that convergence of accounting netting standards will not affect the international leverage ratio given its use of regulatory netting, the Basel Committee has expressed its willingness to consider adjustments based on changes in accounting standards. In the December 2010 Basel III proposal, the Basel Committee stated it will consider "whether a wider definition of exposures and an offsetting adjustment in the calibration would better achieve the objectives of the leverage ratio. The Committee also will closely monitor accounting standards and practices to address any differences in national accounting frameworks that are material to the definition and calculation of the leverage ratio."