March 22, 2011

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


Dear Technical Director:

SNL Financial LC (“SNL”) appreciates the opportunity to comment to the Financial Accounting Standards Board (“FASB”) on the proposed accounting standards update, Balance Sheet (Topic 210): Offsetting. SNL collects, standardizes, and disseminates corporate, financial, market and M&A data, in addition to news and analysis, for the following industries: Banking, Financial Services, Insurance, Real Estate, Energy and Media/Communications. Investment banks, investment managers, corporate executives, ratings agencies, government agencies, consulting firms, law firms and media all rely on SNL for timely, accurate information on the companies in our sectors. As a premier data aggregator, we feel that we have a unique perspective on the usage of information found in financial statements and their notes, as the presentation of data within our products is highly impacted by decisions approved by the FASB.

Although our coverage is largely domestic, SNL has recently launched a data set in our product that includes financial information for European banks. The increasing globalization of accounting standards is now more pertinent than ever for us. In this regard, we applaud the FASB for its efforts in this proposal to address one of the largest inconsistencies in the guidance for balance sheet disclosure between U.S. GAAP and IFRS.

**Offsetting Criteria—Unconditional Right and Intention to Settle Net or Simultaneously**

**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?
Although painful in the short term due to lack of historical comparability, we believe that disclosing a company’s future economic benefits separate from its current obligations on the balance sheet allows for more transparency in the long term. Our instinctual response to a proposal of this nature that has the potential to gross up the balance sheet of so many large companies is one of reservation. However, given the global need for accounting and disclosure consistency, we see the value in the proposal, especially with our coverage of European banking institutions and European and East Asian Real Estate companies.

One concern with the proposal is that the criteria are so strict that few of these types of agreements could be offset on the balance sheet leading to a fully gross balance sheet, effectively nullifying the intent of the proposal. We propose that the FASB amend this proposal by reconsidering the offsetting of conditional arrangements with similar risks or improving its definitions in Paragraph 10. The “unconditional” guideline (¶ 10.c.) should be strengthened due to its ambiguity and the word “insolvency” should be excluded from the examples of “legally enforceable” (¶ 10.e.) as “bankruptcy” covers the legal ramifications of this word. With this exclusion, the structuring of agreements would not come under as much scrutiny when deciding whether or not it met this constraint because “insolvency” has an intangible element. In addition, the definition of “simultaneous” (¶ 10.f and ¶ C11) should probably be broadened to, for instance, a day or 24 hour period, rather than the “same moment” due to the logistic constraints of intraday transactions.

Unconditional Right of Offset Must Be Enforceable in All Circumstances

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 agree that there should be a requirement to set off, or not, based on certain criteria rather than making the offset optional as it is now. Contracts with similar characteristics will appear more consistently on balance sheets across companies which is what our clients need to do their analyses.

However, we predict that at least some companies would begin to construct their agreements in order to comply with a netting or non-netting disclosure rather than what was in the best interest of the company and its stakeholders. The same sentiment can be expressed for much of the bright line guidance in U.S. GAAP that many desire to infuse with judgment by converging with IFRS. The requirement of set off also seems to contradict the concept of management intent which is what drives other FASB proposals right now, including the Selected Issues about Hedge Accounting discussion paper. With all that said, from our
perspective, our clients would get a more accurate picture of the true impact of these contracts on the companies that they are researching with this strict requirement in place.

**Disclosures**

**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?

Regardless of whether the criteria for setoff are approved, we strongly suggest that the requirement for disclosures surrounding these types of agreements/contracts in the proposal survive. With the tabular format, we request that there be a strong tie between the disclosure in the notes and the balance sheet. Many times, SNL’s analysts that collect the financial data have difficulty relating information presented in the notes to the face of the financial statements because of the aggregation of many accounts. With more and more information disclosed in the notes as a result of new accounting guidance, the need for a clear link is needed now more than ever. We are hopeful that XBRL will give financial statement preparers the tools to present this clearer link. Until the XBRL process is refined, though, we will rely on the FASB to require concise, meaningful, and consistent disclosure.

In addition, we fear that many financial statement users might not have the means or knowledge needed to match up related gross assets and gross liabilities (that are currently netted under existing U.S. GAAP) in a timely fashion in order to do certain analyses. In order to combat this, we suggest that a parenthetical notation on the face of the balance sheet (much like the current amortized cost/fair value notation) be required to show a total of the assets or liabilities that the particular line item theoretically could offset or to which it relates. These amounts should match the tabular disclosure that will be required below in the notes.

**Effective Date and Transition**

**Question 5:** Do you agree with the proposed transition requirements in Appendix A? If not, why?

The Dodd-Frank Wall Street Reform and Consumer Protection Act will likely disqualify trust preferred securities and certain other hybrid capital securities from Tier 1 capital. Later this year, U.S. regulators will adopt new market risk rules in relation to their risk-based capital guidelines to align with the Basel Committee’s recent decisions. This accounting proposal coupled with the Basel III recommendations will probably require banking institutions to hold more capital to meet the updated regulatory requirements. In light of all these changes to regulatory capital requirements on the horizon in the U.S., it would stand to reason that a delay of this proposal would be needed to understand the full impact of all these updates. If the FASB is not able to consider a delay, than we would request that a great deal of communication and collaboration take place among the Board, the Securities and Exchange Commission, and U.S. regulators regarding these capital requirements in order to simplify future guidelines and ensure that they are not...
punitive to the financial services sector. Our clients place a great deal of emphasis on our regulatory capital data set so we have even more of a vested interest in the outcome of this issue.

Due to the magnitude of change associated with this proposal and many others that will be finalized in the near future, we feel that the FASB has an obligation to educate the avid financial statement user in some way. One possibility is to provide an educational webcast at least once a year that highlights all the major finalized changes and proposed changes to U.S. GAAP. This learning session should be mandatory as a continued professional education requirement in coordination with the CFA Institute, the American Institute of CPAs, and the Financial Industry Regulatory Authority (FINRA); much like a course on ethics is required yearly for CPAs.

Again, we greatly appreciate the massive undertaking that the FASB and the IASB are currently working on to converge global accounting standards. Our business depends on the availability of consistent financial data. This clarification of disclosure will enhance our ability to provide high quality information to our clients. We would be glad to discuss our comments with the Board members or the FASB staff at your convenience.

Sincerely,

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