20 April, 2011

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Re: File Reference No. 2011-100

Re: IFRS ED/2011/1

Dear Madam or Sir:

Credit Suisse Group ("CSG") welcomes the opportunity to comment on the Financial Accounting Standards Board’s ("FASB") proposed Accounting Standards Update, Balance Sheet (Topic 210) 'Offsetting' (the 'proposed ASU') and on the International Accounting Standards Board's ("IASB") proposed Exposure Draft 'Offsetting Financial Assets and Financial Liabilities' (collectively, the "Exposure Drafts"). CSG is registered as a foreign private issuer with the Securities and Exchange Commission and its consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

CSG continues to support the efforts of the FASB and the IASB to converge accounting standards. However, with regards to offsetting CSG believes that converging to existing US GAAP accounting guidance would better fit the Boards' goal to provide the best standards that produce the highest quality financial statements. We believe the current US GAAP offsetting guidance for derivatives and repos, together with adequate disclosures, reflects correctly the credit and liquidity risks of an entity. The netting agreements were effective during the crisis and therefore the current US GAAP accounting guidance was appropriate.

The proposed guidance attempts to reflect the expected cash flows from settling two or more separate financial instruments. The Boards can achieve this objective with additional disclosures of expected timing of cash flows (e.g. maturity by time bands).

The proposed Exposure Drafts will lead to a significant increase in the size of an entity's balance sheet, particularly for insurance, broker-dealer, banking and other financial industry institutions. It is currently unclear how local regulators or the Basle Committee will react with changes to the regulatory rule set to the proposed changes. Without regulatory reform within each of these impacted industries, we are concerned
that the proposed guidance will cause a negative impact on the volume of business the industry can undertake in light of the potentially negative regulatory implications. As a larger balance sheet will negatively impact current capital/leverage ratio requirements these institutions will be unable to expand or even maintain their business (e.g. lending activities) and may be required to unwind current business transactions, even though the risk profile of the overall entity would not change. The larger balance sheet will unjustly further negatively impact the general public perception of the size of financial institutions which may cause management to restrict balance sheet intensive businesses, which includes traditional lending to companies.

This could lead to negative consequences for the global economy, which is relevant against the backdrop of the fragile recovery many economies are experiencing.

You will find our responses and detailed comments on the questions on the following pages.

If you have any questions or would like any additional information on the comments we have provided, please do not hesitate to contact Todd Runyan in Zurich on +41 44 334 80 63.

Sincerely,

Rudolf Bless
Managing Director
Deputy CFO &
Chief Accounting Officer

Michel Pfenninger
Vice President
Accounting Policy and Assurance Group
The following comments are provided in context of each question posed in the proposed Exposure Drafts. Where appropriate, we have offered perspectives where we believe implementation of the proposed Exposure Drafts will prove to be challenging to our operations or within the financial services industry at large.

**Question 1—Offsetting Criteria: Unconditional Right and Intention to Settle Net or Simultaneously**

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?

We would like to provide comments to the proposed two offsetting criteria as follows:

a) **Unconditional and legally enforceable right to set off**

We agree that in general the proposed criteria will provide the users of financial statements with useful information in assessing an entity’s liquidity and solvency, with the exceptions outlined below.

**Derivative instruments**

One of the principles for offsetting under the proposed guidance is that ‘the amount, resulting from offsetting the eligible asset and eligible liability, reflects an entity’s expected future cash flows from settling two or more separate eligible instruments.’ We believe that the Boards’ concept of looking at future cash flows only does not appropriately depict the economics of derivative transactions under a master netting agreement (MNA).

A single derivative contract is currently not reflected on balance sheet at its future gross cash flows but at fair value. This fair value represents the net discounted cash flows under the transaction and reflects the risk that is inherent in the contract. This approach should not stop at the single contract level but should also be applied to contracts under a MNA. A MNA legally creates a single contract between the two parties under which all transactions under the master agreement between the parties can offset each other in the case of default. As such, this agreement eliminates credit risk at a contract level. An entity’s exposure to credit risk is limited to the net amount as calculated under the MNA. By having these MNAs it reduces the overall costs that would otherwise be charged to protect against counterparty risks.
We’d like to emphasize that ISDA master netting arrangements (providing a conditional right to offset in the event of default of the counterparty) have proved to be efficient throughout the financial crisis as was evidenced during the bankruptcy of Lehman Brothers.

If the balance sheet total were to be increased by grossing up all derivative positions this could lead to a mis-representation of the credit risks an entity is exposed to. Derivative positions presented gross that may be offset upon default could give financial statement users the false impression of increased credit risks. Because of its sheer size, the required gross up of derivatives will distort and obscure the true risks of certain entities. Other financial instruments that contain considerably more liquidity and credit risk may appear negligible in the context of the increased balance sheet totals.

Consequently we ask the Boards to retain the current US GAAP guidance under FIN 39 and permit offsetting in the financial statements for derivatives executed under a legally enforceable master netting agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract.

Information that is useful for assessing the entity’s ability to generate cash in the future (the prospects for future net cash flows) and the risks inherent in a derivative portfolio can be provided through disclosures in the notes. A maturity schedule, similar to that required under IFRS 7, would provide valuable information.

**Cash collateral and variation margin**

The proposed guidance in paragraph C14 requires that an entity shall not offset, in the statement of financial position, recognized eligible assets and eligible liabilities with assets pledged as collateral or the right to reclaim collateral pledged or the obligation to return collateral sold. In this context the paragraph specifically refers to margin accounts related to interest rate swap contracts, futures contracts and exchange-traded written options. The proposed guidance states that margin accounts are assets and liabilities that are accounted for separately.

We do not agree that this concept is valid for exchange traded futures. In general, the value of such a derivative contract is calculated on a daily basis representing the change in value since the previous day’s settlement. In these cases, cash margins are applied to the instrument and depending on the clearing house, the instrument may be considered to be legally settled as of the end of the day, with a margin call the next morning for the incremental change in value. The exchange does not track the accumulated margin payments since the original start from the contract. Cash variation margin under certain centrally-cleared derivatives does not always constitute a legal form of settlement of the instrument as mentioned above. However, the substance and
intent of the daily variation margin is to settle the net exposure to match the same economic impact of those instruments that are legally settled. The cash variation margin will not be returned to the customer unless there is a favorable change in fair value. Current practice is to not reflect gross replacement values and only recognize a receivable/payable to the exchange on a daily basis for the incremental daily margin call. We do not believe that it is the Boards’ intention to change this practice and urge the Boards to remove the reference to exchange traded futures.

Many central counterparties require posting of cash collateral payments. Depending on the clearing house, these payments are effectively advanced payments for the settlement and are used in the normal course of business to settle payments or receipts on the derivative contracts on a net basis. In these cases, there is a right of set-off between the amount receivable (or payable) in respect of the deposit against the amount payable (or receivable) in respect of the financial instrument to which it relates, and there is an intention to settle net. Hence we believe the offsetting criteria are met and the collateral accounts have to be offset with the eligible financial asset or financial liability. However this is contradictory to the statements in C14 and therefore we ask the Boards to revisit the guidance given in C14.

In both cases described above, there is no right to claim cash collateral or cash variation margin posted unless there is a favorable change in fair value. Reporting a separate asset or liability would not be correct.

Other issues

We ask the Boards to provide clarification if an entity is required to offset the entire or a portion of a financial asset and financial liability if only a portion of the cash flows of a financial asset and liability meet the offsetting criteria (e.g. two interest rate swaps with a 5-year and a 10-year maturity for which some of the cash flows meet the offsetting criteria).

We believe that the proposed guidance does not require an entity to identify the individual cash flows of a financial instrument, which meet the netting criteria, and offset only this portion of the financial asset and liability.

The Boards should provide clarification if events that are within the entity’s control are considered to be contingent on the occurrence of a future event (e.g. a right to set-off which is exercisable upon termination of a contract whereas it is the free choice of an entity to terminate the contract). It is not clear whether such rights of set-off should be considered conditional or unconditional rights of set-off.

b) Intends either to settle the eligible asset and eligible liability on a net basis or to realize the eligible asset and settle the eligible liability simultaneously
Simultaneous settlement
The proposed guidance states that simultaneous settlement has to occur at the same moment.

Current IAS 32.48 states that the operation of a clearing house leads to the equivalent of net settlement and only in ‘other circumstances’ exchange at the same moment is required. Current practice under IFRS is to apply simultaneous settlement to transactions that settle through an exchange/central clearing counterparty through the same account on the same day (and not at the same moment).

Payments made through central clearing counterparties will in general not be made ‘at the same moment’; in general they occur at different times during the day. Current IFRS guidance states that the operation of a clearing house leads to the equivalent of net settlement. Consequently transactions cleared through central clearing counterparties are deemed to settle simultaneously if they are settled during the same day. The proposed guidance seems to prohibit this practice, as it is required that transactions need to settle ‘at the same moment’. There is as well a lack of clarity and some contradiction in the proposed guidance because paragraph C9 states that "some contracts and master netting agreements provide for automatic setoff of payments due to or from parties if they occur on the same day and are in the same currency. Also, in a centrally cleared financial market with a central counterparty, the rules of the clearing house typically provide for automatic netting and cancellation of offsetting contracts. For such contractual arrangements, the entity's intention is considered to have been demonstrated at the date of entering into the contracts." This seems to contradict paragraph C12 which states in relation to the operation of a central clearing counterparty that settlements have to occur at the same moment, which is in practice almost impossible to achieve.

We do not believe that the Boards intended to change the current IFRS guidance and practice in this area. Using a central clearing counterparty substantially reduces the counterparty and liquidity risk to an extent that the Boards' pre-conditions for presenting two amounts net are essentially met. Central clearing counterparties have taken additional risk mitigation measures (e.g. requiring margin payments) to protect them and other members from a default of one of its members. Whether settlement occurs on the same moment or on the same day does not have a material impact on an entity's risk exposure. Requiring net presentation and thus supporting the use of central clearing counterparties would be in line with the objectives of the recent Dodd Frank legislation and similar efforts by regulators worldwide to reduce risk to the overall financial system and thus broader economy.

Many transactions executed through a central clearing counterparty settle based on a batch process whereby positions that settle on a given day will be processed at different points during the day based on systematic limitations. The Exposure Drafts do not reflect how settlement systems in the capital markets operate. The requirement that simultaneous settlement has to occur at the same moment would require large
investments in settlement systems and infrastructure to be able to meet this offsetting criteria. This would result in similar balance sheet presentation as under the current guidance with no significant change in credit risks.

Finally, in the webcast meeting held by the IASB staff on 31\textsuperscript{st} January 2011, the staff emphasized that there was no change intended in this area for IFRS filers. We therefore suggest that the wording in the paragraphs be changed to reflect current IFRS guidance and to allow offsetting of transactions that are cleared through central clearing counterparties on the same day.

Repo transactions
In ASC 210-20-45 (formerly FIN 41) the FASB reached a determination that the clearing and settlement mechanism described therein constituted the "functional equivalent of net settlement" for repurchase and reverse repurchase agreements.
Under the proposed guidance it appears that repos and reverse repos that qualify for offsetting under ASC 210-20-45 would not meet the simultaneous settlement criteria, as settlement through central securities transfer systems occurs in batches throughout the day and not 'at the same moment'. We urge the Boards to revisit this paragraph. Repo and reverse repos settlements that meet the requirements under ASC 210-20-45 bear substantially no credit, liquidity and operational risks and are therefore equivalent to net settlements.

Exchange traded derivatives
It is not clear whether offsetting would be required under the proposed guidance in the following example: An entity is a member of a clearing house which acts as central counterparty for various derivative transactions. All amounts due on every single day including settlement of initial and variation margins, final settlements of maturing transactions or periodic payments on open transactions are settled net in one single net payment each day. This net settlement mechanism is part of the contractual terms and is considered to be legally enforceable. From the proposed guidance it is not clear if the offsetting criteria are met for the entire contracts. Further, it is not clear if a partial offsetting is required in case that only some of the cash flows are due on the same day and in same currency.

**Question 2—Unconditional right of Offset must be enforceable in all circumstances**

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 requirement of having an unconditional and legally enforceable right of setoff to be able to offset and we have explained this in our response to Question 1.

We believe that the offsetting criteria have to be met only from the reporting entity's perspective and not as well from the perspective of the counterparty because it would be difficult to make a comprehensive assessment of the counterparty's position. We ask the Boards for clarification that the offsetting criteria have to be considered from the reporting entity's perspective only and not as well from the perspective of the counterparty. Paragraph 10e states the following: 'a legally enforceable right of setoff is a right of setoff that is enforceable in all circumstances, that is enforceable both in the normal course of business and on the default, insolvency, or bankruptcy of one of the counterparties, (as opposed to insolvency or bankruptcy of the counterparty with whom the entity transacts)'. We do not believe that it is the intention of the Boards that offsetting is prohibited unless the right of set-off is enforceable even in the event of the entity's own insolvency.

**Question 3 — Multilateral Set-off Arrangements**

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 agree that offsetting shall be required when the offsetting criteria are met irrespective if two or more parties are involved.

We have encountered only a limited number of transactions involving more than two parties where the offsetting criteria were met. The majority of multilateral set-off arrangements are in the form of master netting arrangements and as such conditional upon default of one of the counterparties.

**Question 4 — Disclosures**

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 believe that net amounts based on current US GAAP offsetting guidance provide the most relevant information as described above and hence should be reflected in the balance sheet. However to some readers of financial statements gross amounts might be as well of interest and these gross amounts should be presented in the disclosures.
We agree with the Boards that the best presentation of this information is done in a tabular format in a single note.

Nevertheless, for some of the details proposed as described below, the benefits for the users of financial statements do not justify the efforts and costs for collecting the data. Not all information required for the proposed disclosures is readily available from current financial reporting systems. In particular, the requirements to disclose the portfolio-level adjustments for credit risk and the requirement to disclose amounts where an entity has an unconditional legal right to offset but has no intention to settle net or simultaneously will be cumbersome to comply with. The portfolio level adjustment is rather a valuation issue than an offsetting issue. Also, the breakdown between unconditional and conditional netting that was not achieved on balance sheet is not meaningful to the user, and the data will be difficult to gather.

We ask the Boards for some clarification on the population of instruments to be considered for inclusion in the proposed disclosure. Are the Boards suggesting that all financial instruments are included in the table even if there is no or only a remote possibility of offsetting? We do not believe that this would be a reasonable approach. It is further not clear how ‘class of financial instruments’ shall be interpreted. If the class is to be based on types of risks, it will be difficult to allocate the portfolio-level adjustments, as these are primarily calculated on a counterparty basis.

**Question 5—Effective Date and Transition**

*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.*

The proposed guidance causes a significant change in practice for US GAAP filers. We expect that systems changes will be necessary to comply with the new disclosure requirements. We do not agree with retrospective application as this would create an additional burden for data collection. Further we expect that market participants behaviour will change in order to meet the criteria for offsetting under any new guidance by the effective date. Therefore, we believe it would be misleading to restate historical amounts as those transactions would have been executed under a different set of requirements. We believe that the effective date of the new guidance be no sooner than reporting periods beginning 1 January 2015.