January 30, 2007

Mr. Lawrence W. Smith  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference: FSP No. FIN 39-a, Amendment of FASB Interpretation No. 39

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the guidance that the Financial Accounting Standards Board has proposed in FASB Staff Position No. FIN 39-a, Amendment of FASB Interpretation No. 39 ("Proposed FSP FIN 39-a").

We support Proposed FSP FIN 39-a, because we believe that by taking the fair value amounts that the reporting entity has recognized for derivative instruments and using those amounts to offset the receivable or payable that was recognized upon payment or receipt of cash collateral under a master netting agreement, the reporting entity can reflect the net fair value and credit-risk exposure to the counterparty in the underlying transactions. However, we suggest that the FASB clarify certain aspects of the proposed guidance as follows.

Proposed FSP FIN 39-a states that the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral may be offset by the fair value amounts recognized for derivative instruments. Illustration 2 provides an example in which a reporting entity determined that cash collateral is not recognized at fair value. Typically, however, contractual arrangements for cash collateral require frequent repricing at market rates, and thus the cash collateral is recognized at fair value or approximate fair value. We suggest that the Board acknowledge this fact in the final FSP.

Proposed FSP FIN 39-a permits a reporting entity to offset derivative instruments and cash collateral (both recognized at fair value) as long as the reporting entity discloses its accounting policy and applies it consistently. Footnote 5 states that "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." We suggest that the FASB place greater emphasis on this point by moving the footnote statement to amended paragraph 10 of FIN 39. As currently written, amended paragraph 10 and new paragraph 10a of FIN 39 could be interpreted as permitting an entity to net the fair value amounts that it recognized for derivative instruments without having to also offset the fair value that it recognized for cash collateral.
We also suggest that the Board make the following adjustments to the wording in Proposed FSP FIN 39-a: In Illustration 1, change "Entity A will offset" to "Entity A must also offset," and change "Entity A will disclose" to "Entity A must also disclose." Similarly, we suggest that in Illustration 2 the Board change "Entity A will offset" to "Entity A must offset," and change "Entity A will disclose" to "Entity A must disclose."

Proposed FSP FIN 39-a clearly states that its provisions must be applied to all fiscal years beginning after December 15, 2006, and on a retrospective basis, but it does not say whether early adoption is permitted. We recommend that early adoption be allowed on the basis that this presentation appropriately reflects the net fair value position and the entity’s credit exposure to a counterparty under a master netting agreement.

We appreciate the opportunity to express our views on the proposed guidance. If you have any questions regarding our comments, please contact John Lawton (973-236-7449) or Gerard O’Callaghan (973-236-7817).

Sincerely,

PricewaterhouseCoopers LLP