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Ms. Susan M. Cosper  
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Dear Sir David and Ms. Cosper,


We would like to thank you for the opportunity to comment on the above mentioned Exposure Drafts ("ED") jointly issued by the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB").

Nomura is one of the leading financial services companies in Japan and has worldwide operations in over 30 countries and regions including Japan, the United States, the United Kingdom, Singapore and Hong Kong. We apply US Generally Accepted Accounting Principles ("US GAAP") for group financial reporting purposes and many of our subsidiaries report under International Financial Reporting Standards ("IFRS") or IFRS-equivalent GAAP (e.g. "UK GAAP"). Additionally, the convergence projects between IFRS and US GAAP under the Norwalk Agreement and between IFRS and Japanese GAAP under the Tokyo Agreement means that IFRS may soon be applicable on a group-wide basis. As a result, we have a keen interest in the future direction of both US GAAP and IFRS and believe that we have a unique perspective on the potential impact of the FASB and IASB's work. We are also members of the International Swaps and Derivatives Association ("ISDA"), the Securities Industry and Financial Markets Association ("SIFMA"), and AFME ("The Association for Financial Markets in Europe") and generally support the views outlined by these organisations in their comment letters on this topic.

We outline below our key messages in response to issues raised by the ED. Detailed responses to the IASB and FASB’s questions are provided in the accompanying appendix.
Key Messages:

1) Nomura continues to support convergence of US GAAP and IFRS

We acknowledge and appreciate that the current draft ED is the result of a joint project between the FASB and IASB staff. While we are strongly supportive of convergence, we believe that accounting standards should converge on the principles and approaches that result in the most decision-useful information. In this case, we do not agree that gross presentation is the best approach. Governments and regulators worldwide, including in the European Union and the United States are engaged in ongoing efforts to promote the use of central clearing counterparties as a method of reducing risk in the financial markets. Financial market participants are also engaged in standardizing bilateral agreements and increasing the use of cash collateralization features in OTC transactions. This gross presentation proposal may, counter-intuitively, result in larger gross balance sheets from an accounting perspective despite the economic risk reduction activities being undertaken. Conversely, principles currently existing under US GAAP result in more decision-useful information as they reflect an entity’s credit, liquidity and solvency risk for both derivatives and repurchase agreements. Importantly, this model has been tried and tested during the recent financial crisis.

Our understanding is that feedback received by the IASB and FASB from primary users of financial statements has been inconclusive with regards to the usefulness of gross presentation. We have also received feedback from analysts within Nomura. Opinion from the Nomura analysts polled has been mixed with most analysts being generally indifferent to gross or net presentation. Some equity analysts have indicated that they make an adjustment to the gross balance sheet figures of IFRS filers to produce a comparable net balance sheet as currently provided by US GAAP filers. As a result, we do not believe that gross presentation as outlined in the ED provides sufficient decision-useful information to outweigh the related misrepresentation of credit, liquidity and solvency risk we outline below.

Regardless of our opposition to the proposals within the ED, we continue to believe that convergence for key accounting standards is the best approach and would urge the FASB and IASB to continue their efforts to develop a single standard for offsetting that is more in line with current U.S. GAAP accounting.

2) Nomura does not support the use of gross presentation for financial assets and financial liabilities as outlined in the ED because we believe it distorts users’ view of credit and liquidity risks whilst not significantly improving market risk or cash flow information

We believe that the results from the gross presentation basis are a contradiction to the fundamental qualitative characteristics of relevance and faithful representation as outlined in the Statement of Financial Accounting Concepts No. 8: Conceptual Framework for Financial Reporting (The Conceptual Framework for Financial Reporting 2010). The qualitative characteristic of relevance requires that financial information provided be capable of making a difference to the decisions made by users. As we discuss below, gross presentation does not present information that would be relevant for users and, at worst, may obscure information which would, in fact, be relevant to users such as credit mitigation provided by collateral. Additionally, gross presentation is
not a faithful representation of financial assets and financial liabilities as it provides an incomplete understanding of financial instruments and the risk mitigation techniques associated with them.

The proposed presentation of financial assets and financial liabilities on a gross basis on the balance sheet is problematic for a number of reasons. Presentation of such balances on a gross basis misrepresents the credit and liquidity risk exposure of financial services companies transacting in these instruments. From a credit risk perspective, the legal right of offset currently in place has a real impact on the valuation methodology for collateralized transactions such as derivatives. Gross presentation discounts the risk mitigation value of these rights of offset and overstates the counterparty credit risk to which the entity is exposed.

At the same time, the gross presentation requirements overstate an entity’s claims to cash and obligations to remit cash. Derivative liabilities, for example, are generally collateralized, and in some cases overcollateralized, at mutually agreed levels by the transacting parties. In addition, certain collateral postings, for example variation margin payments to exchanges, are typically regarded as in-substance settlement amounts. Not taking account of such collateral and margin postings overstates an entity’s liquidity risk as it implies that a future obligation to remit cash exists which the entity may not have assets to satisfy, when in fact, those assets have already been provided to the counterparty. In other words, cash to cover the derivative obligations has already passed and should be represented as an extinguishment of the liability rather than as an additional asset.

For repurchase and reverse repurchase agreements with the same counterparty and the same maturity date, cash flows will occur on a near simultaneous basis, although not at the same moment, resulting in effective net settlement. Assuming the repurchase and reverse repurchase agreements are for the same amount a payment and repayment of cash would occur almost simultaneously and, effectively, no cash would be exchanged between the parties to the transaction. It would be misleading to record a separate right to receive cash and obligation to pay cash where effective net settlement occurs, especially as these amounts would be offset in bankruptcy if governed under standard master netting agreements, as is the case with the majority of our transactions. Liquidity risk on the reverse repurchase transaction is reduced, if not eliminated, by cash received on the repurchase transaction.

In addition to the misrepresentation of cash flows, credit and liquidity risks outlined above, gross presentation does not offer any additional insight over net presentation into an entity’s potential market risk exposure from financial instruments. Market risk is a forward-looking concept that cannot be captured on the balance sheet which is, by nature, prepared at a single historical moment in time.

Gross presentation, as proposed, has a genuine distortive effect on the balance sheet. This distortion would be significant for financial services entities with significant portfolios of derivative instruments and repurchase agreements. If, for example, collateral is not considered for derivatives the size of these gross amounts may obscure other important balances in the financial statements, which may, in fact, be subject to greater risk.
3) Nomura believes that an alternative approach may be supportable

We strongly support the current US GAAP model for offsetting financial assets and financial liabilities. However, a hybrid approach may be a desirable solution to meet the requirements of the largest number of constituents. An acceptable compromise may be the presentation of cash collateralized derivatives and repurchase and reverse repurchase agreements settling on a near simultaneous basis on a net basis, with other balances presented in accordance with the criteria outlined in this ED. Another alternative may be an enhanced presentation showing the net financial asset and financial liability balances on the balance sheet, as prepared under current US GAAP rules, with the corresponding gross balances presented in parenthesis. A third option would be to continue net presentation as currently practiced under US GAAP, supplemented with further enhanced disclosure in the notes to the financial statements. One of these hybrid approaches would provide maximum flexibility, avoiding distortions on the balance sheet while providing information for those who require it.

Our detailed answers to your questions are further outlined in the appendix below. For ease of use, US GAAP references are provided with IFRS references in brackets. If you require further clarification on our comments, please contact Mark Learner (Head of Global Accounting Policy) on +44 207 102 9116.

Yours sincerely,

\[Signature\]

Takumi Kitamura
Managing Director, Head of Controller's Department
Appendix: Responses to questions raised by the FASB and IASB

Please find our responses to the specific questions in the Questions for Respondents outlined below.

**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?

In substance, the high level principles are appropriate; however, a more detailed reading raises several issues. Issues regarding the requirement of the ED that the right of offset be unconditional are discussed in our response to Question 2, below. In this section, we will address issues regarding simultaneous settlement and the treatment of collateral, in particular, margin postings to centrally cleared counterparties including clearinghouses and exchanges.

The use of the term "simultaneously" in relation to settlements of assets and liabilities is open to interpretation and raises concerns that an unreasonable interpretation may be applied. In particular, the use of the phrase "at the same moment" in paragraph 210-20-55-11(C11) is not helpful as it implies that only assets and liabilities settling without any temporal gaps could be offset even if the counterparty credit and liquidity risk exposure to these financial instruments were negligible. Many financial instruments including derivatives and repurchase agreements are settled based on a batch process, with offsetting assets and liabilities processed at different points in a day. These timing differences are logistical in nature and do not expose the entity to significantly more risk due to the collateralization of these instruments and the legal right of offset embedded in contracts governing these transactions. Guidance indicating that, where transactions are collateralized and where residual credit and liquidity risk is not significant, settlement within one day would meet the simultaneous settlement criterion would be helpful. This would reflect the operational processes currently used in the capital markets for centrally cleared transactions as well as certain bilateral transactions.

We are concerned that paragraph 210-20-55-14 (C14) provides a very rigid definition of collateral and margin accounts related to financial instruments including interest rate swaps and futures, by noting that these are “separate assets or liabilities that are accounted for separately”. Centrally-cleared transactions often require the posting of both initial margin and variation margin. The London Clearing House ("LCH"), for example, requires clearing members to post both margin amounts, with variation margin calculated based on the outstanding fair value exposure of the clearing member’s portfolio and initial margin providing a buffer over and above the variation margin.
margin amount. Variation margin amounts are typically regarded as settlement payments in substance as cash posted as variation margin may not be returned to the clearing member, but may instead be used to settle outstanding transactions. Where these facts apply, we believe that variation margin should not be treated as a separate asset or liability and accounted for separately, but should, rather, be used to reduce the clearing member’s portfolio as it represents an extinguishment of any obligation by the clearing member to the clearinghouse. The same would happen if the positions of the clearinghouse and the clearing member were reversed. It would be beneficial to enhance the definition of collateral and margin to note that there are, in fact, differing situations to consider. In some situations, collateral and margin may be “pure” collateral and would not be used for settlement purposes but, rather, be returned to the entity. This may apply, for example, to the initial margin posted to the clearinghouse. These amounts should be accounted for as separate assets and liabilities. In other situations, collateral and margin may be “in-substance settlement” amounts as described for variation margin postings to the LCH above. These amounts should be accounted for as a reduction of the outstanding portfolio to which the collateral and margin amount applies.

The ED has eliminated guidance applied by broker-dealers to net payables and receivables on unsettled regular-way trades (previously in 940-320-45-3). This results in significant operational issues for high volume brokerage firms as it would require the identification of individual counterparties prior to the settlement of regular-way trades. This is particularly problematic for certain cash equity trades cleared through certain clearing houses. In many cases, there is a one to two day time period in between trade date and when the clearinghouse accepts, and becomes counterparty to, the trade. During this brief interval an entity will likely not know the true counterparty on a trade. As illustrated above, the elimination of the regular-way exemption would require that all counterparties are separately identifiable prior to the novation of trades to the clearinghouse, and such transparency may not be built into electronic trading platforms, making this operationally onerous. We note that the current treatment for broker payables and receivables on unsettled regular-way trades results in the correct accounting even when a trade fails to settle, as the unsettled payable or receivable is presented on a gross basis.

Regular-way security receivables and payables are settled on a delivery-versus-payment basis within a short settlement period (typically three days). If cash is not paid, the security is not delivered and vice versa. In the event of the client defaulting, the broker-dealer will be owed funds but will, in turn, own assets of an equivalent value. They may then choose to sell these typically liquid securities into the market to recover their funds. Hence the broker is never fully exposed to the full value of the transaction, but rather to the change in value of the asset between the contractual trade and settlement date. Thus, the risk on these receivables and payables is limited to the difference between the fair value of the underlying security and the pending cash payment or receipt. Gross information for these transactions would have very limited value as the gross amounts are irrelevant if the transactions settle correctly and failed settlements (where an entity is truly exposed to risk) are already accounted for on a gross basis.

We believe that paragraph BC52 may be interpreted as introducing two further implicit requirements for offsetting: 1) that the nstruments have the same contractual maturity or 2) that the asset settles before the liability. For collateralized transactions, these implicit requirements are
not valid as the maturity date and order does not impact an entity’s outstanding credit or liquidity exposure. Collateral requirements are calculated based on the outstanding net asset or net liability position. Where a portfolio consists of a single asset and liability, with the asset maturing after the liability, the net collateralized position would remain the same after the liability expired as additional collateral would be required for the outstanding asset. We would appreciate clarification in the body of the standard that these criteria are not implicit requirements for offsetting.

**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 do not agree that offsetting of eligible assets and liabilities should only be applied if an unconditional and legally enforceable right of setoff is enforceable in all circumstances as we believe that this requirement is too restrictive and requires further clarification as outlined below.

We believe that contracts covered by the ISDA Master Netting Agreement ("MNA") should be eligible for offset as the ISDA MNA provides sufficient protection from a credit and liquidity risk perspective such that users of the financial statements should be indifferent to the presence or absence of a right of setoff on an ongoing basis in the normal course of business. The ISDA MNA operates as a single umbrella agreement which includes all transactions governed by it. New transactions governed by the MNA modify and become part of this single legal contract. On termination of an ISDA MNA, all payments outstanding are calculated and settled on a net basis. In addition, ISDA MNAs covering derivatives commonly include a Credit Support Annex ("CSA") outlining the collateral requirements for these transactions. As ISDA MNAs are legally a single agreement, we believe that all transactions (including collateral as required by CSAs) covered by an ISDA MNA should be presented as a single financial asset or financial liability on a net basis as this is more faithfully representative both of the contractual agreement as well as the risks related to these transactions.

The right of setoff is most important in the case of default or bankruptcy as only under those circumstances would an entity be exposed to credit risk. This is especially the case where transactions are collateralized, as is common with derivatives and repurchase agreements. As a result, we believe that the right of setoff which can be invoked in the case of default or bankruptcy should be sufficient to meet the net settlement criteria.

In addition to our concerns about the general requirement for unconditional setoff in all circumstances outlined above, we are also concerned that the characterization of master netting agreements as a conditional right of setoff which does not meet the unconditional right of setoff criterion as outlined in paragraph 210-20-45-5E (9) is inaccurate. The ISDA MNA also permits
parties to net payments which occur on the same day and in the same currency on an ongoing basis, not merely on the occurrence of a counterparty default. This is covered in section 2(c) of the 2002 ISDA MNA and if it is mutually agreed by both counterparties, netting is legally enforceable. Consequently, where an entity has the operational ability to offset payments where they coincide, transactions under the ISDA MNA should be eligible for net presentation on the balance sheet. Eligibility for offset should apply even where the payment dates of transactions do not coincide as whether or not coincidental payments occur does not affect an entity's right to offset under the ISDA MNA. It is also important to note that cross-product netting applies under ISDA MNAs as legally there is no difference between cash flows occurring under a single transaction and those due to multiple transactions, including those across asset classes. Section 4(i) of the 2002 ISDA MNA allows for cross product netting of one or more transactions across different types, in the same currency and due on the same date when this is mutually agreed. On a practical basis, due to system limitations, cross-product netting may not be applied, but this does not change the legal enforceability of setoff. Importantly, the enforceability of ISDA MNAs is supported by external legal opinions, published by ISDA, in the majority of jurisdictions in which we operate.

Finally, should an unconditional right of offset in all circumstances be required, this criterion should be clarified with regards to the entity’s own risk of default or bankruptcy. Netting agreements are generally not enforceable by the defaulting counterparty. If the entity’s own default or bankruptcy was one of the circumstances to which the right of offset would need to apply, this would virtually eliminate the ability to net financial assets and liabilities even when all the other netting criteria are met. This would not be appropriate given that financial statements are required to be prepared on a going concern basis.

**Multilateral Setoff Arrangements**

**Question 3**: 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?

As discussed above, we do not agree with the proposals and, therefore, do not agree that they should apply to either bilateral or multilateral setoff arrangements. However, whilst we do not agree with the ED, we do believe that, in principle, the same criteria for offsetting should apply to both bilateral and multilateral arrangements. Therefore, whatever rules are eventually finalized, these should apply to both bilateral and multilateral arrangements.
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?

We have a general concern about increased disclosure requirements as the volume of information now required for financial instruments is, not only increasingly onerous for preparers, but also potentially impairs the usefulness of financial statements for primary users. The suite of disclosures required for financial instruments should be rationalized in a cohesive manner and new disclosures should only be introduced where more decision-useful information would be provided.

With regards to the quantitative disclosures required by the ED, we question the requirements to disclose information on the unconditional and legally enforceable right to offset which the entity does not intend to set-off as proposed in paragraph 210-20-50-2(c) (12(c)) and information on the conditional right to offset by each type of conditional right as proposed in paragraph 210-20-50-2(d) (12(d)). This is not information that is currently tracked and it would be prohibitively onerous to retrospectively apply this requirement for significant portfolios of financial assets and liabilities as well as to enhance financial systems to capture this information on an ongoing basis. We do not believe that this is decision-useful information and therefore, does not meet the criterion of relevance previously discussed.

Additionally, the requirement to disclose collateral pledged by class of financial instrument does not reflect the collateral management systems of financial institutions. Collateral is often calculated on a net, cross-product basis based on an entity’s net exposure to the relevant counterparty. Allocating these collateral amounts by class of financial instrument would only be achievable if an arbitrary methodology was used which would not be a true reflection of the collateralized position of each class of asset. The comparability of this information between institutions would, inevitably, be impaired as each entity would be required to develop its own methodology for producing this information.

As suggested at the beginning of our letter, we would support a hybrid approach for disclosing financial assets and liabilities on the balance sheet, disclosing net amounts with gross amounts in parenthesis. We note that there is precedence for parenthetical disclosures on the face of the balance sheet as this is a common approach for disclosing securities pledged as collateral, fair value amounts for instruments measured at amortized cost and accumulated depreciation on fixed assets. Should more detailed disclosures be required, we would advocate a more principals-based approach which would allow entities to provide disclosures based on information used by key management personnel to manage the business rather than the prescriptive requirements detailed in the ED.
Effective Date and Transition

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.

While we accept that retrospective application may be useful to ensure comparability between periods, it will be operationally complex and prohibitively expensive to calculate the gross up for historical portfolios. As the balance sheet is representative of amounts only at a single point in time, re-stating previously net balances on a gross basis is of limited use as information on cash flows and risk exposures in comparative periods would no longer be relevant. The costs of applying these requirements to past transactions would significantly outweigh any benefits. As a result, we do not support retrospective application.

We note that the FASB have recently received feedback on the Effective Dates and Transition Methods project. We believe that it would not be unreasonable to align the effective date of this offsetting proposal with the single effective date resulting from this project which we believe should be no earlier than annual accounting periods beginning 1 January 2015.