April 28, 2011

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-0516

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
United Kingdom


Dear Chairman Seidman and Sir David:

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

To achieve these goals, the CCMC has been a strong supporter of a single set of global accounting standards and has backed efforts to improve standards and reduce complexity through the convergence of U.S. Generally Accepted Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”).
While the CCMC appreciates the efforts of the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") (collectively "the Boards") in issuing the Proposed Accounting Standards Update on Balance Sheet Topic 210: Offsetting (FASB File Reference No. 2011-100) and IASB Exposure Draft on Offsetting Financial Assets and Financial Liabilities (the "Proposal"), we have serious concerns regarding potential adverse impacts and unintended consequences regarding the Proposal. Accordingly, we believe the Proposal should undergo extensive review and reconsideration.

Concerns

The CCMC recognizes that, at present, the circumstances when financial assets and financial liabilities may be presented in an entity’s balance sheet as a single net amount, or as two gross amounts, differs depending on whether the entity reports using IFRS or US GAAP. We also understand that the accounting differences purportedly result in the single largest quantitative difference in reported balance sheet numbers under IFRS vis-à-vis US GAAP. Nonetheless, the CCMC is concerned that the Proposal represents an easy—rather than the right—approach to resolve these differences.

The CCMC supports the overarching premise that the financial statements should help explain the reporting entity’s business and operations on a going concern basis. In order to do so, accounting and reporting for financial assets and liabilities should reflect a reporting entity’s purpose for holding these assets and liabilities and its strategy for managing them. Accounting and reporting should reflect economic activity, not drive it. From these perspectives, the Proposal falls far short.

The Proposal does not provide investors and other financial statement users with relevant information for predicting an entity’s future cash flows, including relevant information about the liquidity, solvency risk, or credit exposure of the reporting entity. Reporting gross amounts for assets and liabilities does not reflect the underlying economics of derivative transactions and repurchase agreements. As such, reporting gross amounts would distort entities’ statements of financial positions. In addition, the Proposal does not reflect widely used risk management practices (such as collateral requirements and master netting arrangements) or market activities (for example, settlement activities by clearing houses).

The Proposal will interact with existing standards and regulations with consequences that the Boards appear not to have considered. To illustrate, Securities and Exchange
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Commission ("SEC") Regulation S-X requires reporting entities to separately state on the balance sheet or in a note any current and noncurrent asset amounts in excess of 5% of total assets. By substantially increasing reported total assets for many entities, in particular financial institutions, the Proposal will likely decrease the disaggregated information reported on financial statement elements and, thereby, reduce the transparency of entities' financial reporting for all stakeholders.

Additionally, the Proposal may present an adverse interplay of unintended consequences regarding the changes in financial statements versus regulatory policies that govern the operation, safety and soundness of financial institutions. The CCMC believes that: the FASB and IASB need to have a robust dialogue with financial regulators to better understand this interplay and to work cooperatively to identify adverse impacts and correct them. Now is the time to make such changes, if possible, not post implementation when the consequences can derive into real economic dislocations.

The Proposal also appears to involve cross-cutting issues related to other existing FASB and IASB projects. For example, since the Proposal involves financial statement presentation, it relates to the pending (although postponed) FASB and IASB Financial Statement Presentation project and the issue of offsetting financial assets and financial liabilities might more appropriately be resolved within the context of that project. Moreover, the Proposal appears to be at odds with the two core principles for financial statement presentation in that pending project— namely that information should be presented in the financial statements in a manner that (1) disaggregates information so that it is useful in predicting an entity’s future cash flows and (2) portrays a cohesive financial picture of an entity’s activities.

Alternative Recommendations

We urge the Boards to reconsider the Proposal, ideally in the context of the pending Financial Statement Presentation project. However, if the Boards decide to proceed with this offsetting project, a more desirable alternative to the Proposal appears to be a linked presentation. Under a linked presentation, gross assets (liabilities), less a deduction for amounts currently offset in accordance with existing US GAAP, would be reported on the balance sheet within total assets (total liabilities).¹

¹ In this regard, it is worth noting that the current U.S. GAAP offsetting model is viewed as providing relevant and informative balance sheet presentation. Further, we are not aware of criticisms per se of the current U.S. GAAP offsetting model from stakeholders.
Finally, the CCMC encourages the FASB and IASB to conduct field testing and other outreach activities to better appreciate and address the potential issues that would arise in implementing the presentation and disclosure guidance in the Proposal. For example, the CCMC understands that a number of entities expect to encounter operational challenges in complying with the Proposal given their existing internal systems and processes.

*Concluding Remarks*

In conclusion, the CCMC appreciates the opportunity to comment on the Proposal. However, as we have previously stated, enacting quick-fixes to converge US GAAP and IFRS does not serve the interests of investors and other financial statement users. Convergence for convergence sake is not an appropriate goal or outcome. The interests of all stakeholders are best served by the promulgation of accounting standards that will serve the test of time.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

[Signature]

Tom Quaadman

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2 This is consistent with the Chamber’s general concerns and broader recommendations related to implementation of the convergence projects. For example, see the March 25, 2011 letter from U.S. Chamber of Commerce to the FASB (IASB) on Discussion Paper (Request for View) on Effective Dates and Transition Methods (FASB File Reference No. 1890-100).

3 See March 25, 2011 letter from U.S. Chamber of Commerce to the FASB (IASB) on Discussion Paper (Request for View) on Effective Dates and Transition Methods (FASB File Reference No. 1890-100).