April 28, 2011

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


Dear Ms. Cosper:

The 12 Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Exposure Draft of a Proposed Accounting Standards Update, Balance Sheet (Topic 210): Offsetting (hereinafter referred to as the “Exposure Draft”). Other than derivative instruments, the FHLBanks do not hold financial assets or liabilities that are within the scope of the Exposure Draft. Accordingly, our comments are limited to the potential significant impact of the Exposure Draft on derivative instruments only. At December 31, 2010, the FHLBanks reported $897 million and $5.5 billion of net derivative assets and net derivative liabilities, respectively, on a combined basis. The gross amounts (prior to netting and collateral adjustments) disclosed were $8.5 billion and $19.0 billion of derivative assets and derivative liabilities, respectively. Consequently, the proposed guidance in the Exposure Draft would have a significant impact on the amounts of assets and liabilities reported in the FHLBanks’ financial statements. Below are our responses to each question.

**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?**

No, the FHLBanks do not agree with this proposed requirement. The FHLBanks believe that a requirement to offset financial assets and liabilities should be based on an entity’s contractual right, even a conditional right. Additionally, the FHLBanks believe that their current practice of settling the net fair value exposure of derivative instruments executed with the same counterparty under master netting arrangements (through collateral exchange) is analogous to an entity’s.
intention to net settle an asset or liability. This net settlement is demonstrated through past practices of executing setoff and therefore, should meet criteria 1. However, should the Board disagree, then the FHLBanks recommend retaining the exception provided for derivative instruments executed with the same counterparty under a master netting arrangement in paragraph 10 of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* ("FIN 39"), as codified in ASC 815-10-45-5. Furthermore, contrary to the Board’s beliefs, the FHLBanks believe that net amounts of derivative assets and liabilities are more relevant to users than gross amounts for assessing the liquidity or solvency of an entity. For contracts which require the transfer of collateral, presentation of a gross derivative asset may erroneously lead a user to assume that the asset may be sold to generate liquidity for the entity. However, in these instances, the amount of cash generated by the sale of the derivative asset may be offset by either the requirement to return collateral pledged against the position by the counterparty or to remit additional collateral to the counterparty to secure a net liability position. The opposite would be true in instances where a derivative liability is paid. Payment of the liability would not result in a net use of liquidity as an offsetting amount may be received from the counterparty for a derivative asset position. Thus, a net presentation of derivative assets and liabilities and the related collateral would more faithfully represent the liquidity position of an entity in these arrangements. See further discussion in our response to question 2.

*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?*

No, the FHLBanks do not agree with this proposed requirement. As permitted by FIN 39, the FHLBanks currently offset the fair value amounts recognized for derivative instruments executed with the same counterparty under master netting arrangements, as well as any cash collateral remitted to or received from the counterparty for purposes of reporting derivative assets and derivative liabilities. This methodology is consistent with FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, which states, “... financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise [emphasis added].” A net derivative asset represents the amount of credit risk exposure under the arrangement and the uncertainty of prospective cash flows. In FIN 39, the Board provided an exception to the requirement that an entity intend to set off assets and liabilities with the same counterparty because the Board decided that, “given a master netting arrangement, presentation of the aggregate fair values of the individual contracts executed under that arrangement would not provide more information about the uncertainty of future cash flows from those contracts than net amounts would.” This remains a true statement. Accordingly, in an effort to promote consistency across entities and consistent with the alternative views expressed by Ms. Seidman and Mr. Golden, the FHLBanks would support a change to U.S. GAAP that would require set off when an entity has a conditional and legally enforceable right to offset assets and liabilities with the same counterparty.
Furthermore, contrary to paragraph C14 of the Exposure Draft, the FHLBanks do not believe that margin accounts "are assets or liabilities that are accounted for separately." Rather, the FHLBanks believe that margin accounts maintained with clearing houses meet the criterion of an unconditional and legally enforceable right of setoff. The FHLBanks believe that the posting of margin is an in-substance settlement of the net position and any credit exposure has been negated, regardless of whether the position is actually settled on the date the margin is posted. In FSP FIN 39-1, the Board stated that, "... offsetting fair value amounts recognized for the receivable or payable recognized upon payment or receipt of cash collateral against fair value amounts recognized for the derivative instruments fairly portrays the amount of credit risk exposure under the entire arrangement." In December 2010, the IASB issued an Exposure Draft, *Hedge Accounting*, in which they stated that the objective of hedge accounting is "to represent in the financial statements the effect of an entity’s risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss." The FHLBanks believe that the financial statements should not only reflect the effects of an entity’s ability to hedge particular risks, but also the effects of an entity’s ability to manage the risks that arise from those hedging activities. Collateral arrangements serve to mitigate the credit risk and liquidity risk that arise from an entity’s hedging activities. Therefore, offsetting the fair value amounts recognized for derivative instruments, as well as any cash collateral (i.e., net presentation) results in the full picture of an entity’s risk management activities being represented and provides financial statement users with the most relevant information.

**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?**

The FHLBanks do not enter into multilateral setoff arrangements; therefore this question is not applicable to the FHLBanks.

**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?**

No. The FHLBanks do not agree with the proposed disclosure requirements. As stated in paragraph BC82, "... derivatives are required to be reported at fair value, which reflects the expected net cash inflows and outflows of the contract. Even for a single derivative contract, therefore, supplemental disclosure is required to provide information about the timing and uncertainty of cash flows (and other risks) relating to derivatives." ASC 820, *Fair Value Measurements and Disclosures*, sets forth the disclosure requirements for financial instruments measured at fair value, including the inputs used to develop those measurements. Consistent with the Boards’ beliefs, the FHLBanks believe that counterparty risk is a matter of measurement and therefore, the FHLBanks do not believe that portfolio-level adjustments made as part of a fair value measurement to reflect an entity’s net exposure to the credit risk of counterparties or the counterparties’ net exposure to the credit risk of the entity should be included in the proposed disclosure. Rather, the FHLBanks believe that the disclosures required by ASC 820, coupled with the disclosure requirements of ASC 815, *Derivatives and Hedging*, are sufficient to meet the needs of users.
Furthermore, if it is the Board’s intention that the disclosures present information about rights of setoff and related arrangements to enable users to understand the effects of those rights and arrangements, including the true net exposure an entity has with its derivative counterparties, then the disclosure requirements and the illustrative examples should be clarified. For example, if an entity is required to provide the ASC 210-20-50-2 disclosures separately for derivative assets and derivative liabilities, then it appears an entity would need to supplement those disclosures in order to present the true net exposure. Additionally, the FHLBanks do not believe that the amount of collateral presented in the table should be limited to the net asset or liability amount presented in the statement of position. Over- and under-collateralization amounts provide relevant information about near-term liquidity impacts and credit exposures, which should be provided through disclosure.

**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.**

Yes. The FHLBanks agree with the proposed transition requirements. The FHLBanks believe an implementation period of at least one year should be provided.

As evidenced by our responses to the questions, we do not believe that the proposed guidance would result in an improvement to financial reporting. As stated above, the FHLBanks currently offset the fair value amounts recognized for derivative instruments executed with the same counterparty under master netting arrangements, as well as any cash collateral remitted to or received from the counterparty for purposes of reporting derivative assets and derivative liabilities. We believe this provides the most faithful representation of the FHLBanks’ financial positions and our exposure to credit and liquidity risk.

While we have long supported the Board’s efforts to converge U.S. GAAP with International Financial Reporting Standards (“IFRS”), we do not believe that the current U.S. GAAP offsetting model should be conformed to the IFRS model. Rather, we believe the IFRS model should be conformed to the U.S. GAAP model. We thank the Board for its consideration of the FHLBanks’ views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (214) 441-8535.

Sincerely,

[Signature]

Tom Lewis  
Senior Vice President and Chief Accounting Officer  
Federal Home Loan Bank of Dallas  
(On behalf of the Federal Home Loan Banks as Chair of the Controllers’ Committee)