

December 21, 2012

Ms. Susan M. Cospers
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 2012-250, Proposed Accounting Standards Update: *Balance Sheet (Topic 210) - Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

Dear Ms. Cospers,

The International Swaps and Derivatives Association's (ISDA) Accounting Policy Committee¹ appreciates the opportunity to provide comments and responses on the Financial Accounting Standards Board's ("FASB") Proposed Accounting Standards Update, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (the "Exposure Draft"). The Exposure Draft is intended to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)*. This letter (i) provides our organization's overall views on the Exposure Draft and (ii) addresses the questions for respondents included within the Exposure Draft.

Key messages:

Overall

ISDA welcomes the clarification of the scope's application to the select items noted in the Exposure Draft: derivatives, repurchase agreements and reverse repurchase agreements, and

¹ ISDA's Accounting Policy Committee members represent leading participants in the privately negotiated derivatives industry and include most of the world's major financial institutions, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments.

securities borrowing and lending transactions. We believe the clarifications to ASU 2011-11 alleviate concerns about the scope of the offsetting disclosures.

We agree with the Exposure Draft's Basis for Conclusions that (i) these items drive the most material U.S. GAAP/IFRS differences related to offsetting in the financial statements and (ii) that the inclusion of other financial assets and financial liabilities (e.g., trade accounts receivable/payable, brokerage receivables/payables, etc.) would not improve the usefulness of the offsetting disclosures.

Responses to FASB's Questions for Respondents

We believe that the types of financial instruments noted in Section 210-20-50-1(c) account for the most material differences as a result of offsetting between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with IFRS. Therefore, we do not believe that there are other instruments that should be included in the proposed scope that would provide relevant information to users of financial statements.

We do not foresee any significant operability or auditing concerns that will be caused by the Exposure Draft.

Except as noted below, we agree with the proposed scope of the Exposure Draft.

Reconciling the term *derivative instruments*² to the Master Glossary may unintentionally broaden the scope of the offsetting disclosures. The Master Glossary provides the following definition of a *derivative instrument*: "Paragraphs 815-10-15-83 through 15-139 define the term derivative instrument." Paragraphs 83 through 139 describe the criteria that define a derivative. However, the scope exceptions to Topic 815³ (e.g., certain insurance contracts, normal purchase normal sale, contracts in an entity's own equity, etc.) are *not* part of the definition of *derivative instrument*, as defined in the Master Glossary. We believe that the Exposure Draft's inclusion of financial instruments that meet the definition of a derivative but are specifically exempt from the provisions of Topic 815 is unintended.

In addition, it is not clear whether the Board intended for embedded derivatives to fall within the scope of the Exposure Draft. A hybrid instrument would not meet the definition of a derivative instrument and it is not our experience that such bifurcated embedded derivatives would be presented net. Therefore, we included the defined term "freestanding contracts" in paragraph 210-20-50-1(c) to clarify their exclusion.

We propose that Section 210-20-50-1(c) of the Exposure Draft be revised to state (addition/deletion),

"210-20-50-1(c) - Recognized **derivative instruments** (glossary link)^{*} that are **freestanding contracts** (glossary link) accounted for under Topic 815, {add glossary link

² As used in Sections 210-20-50-1(c) and 50-1(d).

³ Section ASC 815-10-15-13 through 815-10-15-82.

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to 2nd Definition} **repurchase agreements** {add glossary link to 2nd Definition} and **reverse repurchase agreements** ([glossary link](#)), and securities borrowing and securities lending transactions that are offset in accordance with either Section 210-20-45 or Section 815-10-45.”

* Excluding contracts that meet one or more of the exceptions to derivative accounting in 815-10-15-13 through 815-10-15-82.

Such changes should be incorporated into Section 210-20-50-1(d) to the extent deemed necessary by the FASB.

Closing

We hope you find ISDA’s comments and responses informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

A handwritten signature in cursive script that reads "Daniel Palomaki". The signature is written in dark ink and is positioned above a dashed horizontal line.

Daniel Palomaki
Citigroup
Chair, N.A. Accounting Policy Committee