new york state society of
NYSSCPA
certified public accountants

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3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

April 27, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update–Balance Sheet (Topic 210) Offsetting

(File Reference No. 2011-100)

The New York State Society of Certified Public Accountants, representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Mark Mycio, Chair of the Financial Accounting Standards Committee at (212) 838-5100 or Ernest J. Markezin, NYSSCPA staff at (212) 719-8303.

Sincerely,

Margaret Ann Wood

Margaret A. Wood
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE–BALANCE SHEET (TOPIC 210) OFFSETTING

(FILE REFERENCE NO. 2011-100)

April 27, 2011

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Abraham E. Haspel
Robert M. Rollmann

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NYSSCPA Staff

Ernest J. Markezin
William R. Lalli

New York State Society of Certified Public Accountants

Financial Accounting Standards Committee

Comments on

Proposed Accounting Standards Update–Balance Sheet (Topic 210) Offsetting

(File Reference No. 2011-100)

We have reviewed the proposed Financial Accounting Standards Board's Accounting Standards Update, *Balance Sheet (Topic 210) Offsetting* (the Proposed ASU) and we appreciate the opportunity to provide our responses to the questions asked.

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?

Response:

We generally are in agreement with the proposals; however, we are concerned about how this proposal would apply to entities that are related through common ownership.

With respect to groups of related party entities, in our experience, these entities engage in frequent inter-entity transactions, and the related receivables and payables typically are settled on a net basis. Furthermore, it is common for these inter-entity transactions never to be settled through the disbursement/receipt of funds. The Proposed ASU would result in receivables and payables being grossed up which, in our view, could distort the financial statements. We encourage the FASB to consider exempting related party receivables and payables of nonpublic entities from the provisions of this Proposed ASU, and, if not, the FASB should consider providing additional implementation guidance examples in section 55 of the Proposed ASU.

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?

Response:

We agree with the proposals; however, we wonder if the FASB has set the bar so high for offsetting, such as to render offsetting unobtainable for substantially all transactions. Of primary concern to us is that in order to qualify for offsetting an eligible asset/liability would need to be legally enforceable even in the case of bankruptcy of a counterparty. We believe that it is not useful or practicable to evaluate whether offsetting would be enforceable in bankruptcy unless at the reporting date it appears as though the bankruptcy of a counterparty to an asset or liability subject to offset is probable or has occurred. Only under these limited circumstances should bankruptcy be a factor in the determination of whether an asset and liability are eligible for offset. A reporting entity is not required to evaluate whether it received any preferential transfers within the past 90 days and to gross up its balance sheet for those past transactions; therefore, we question whether it makes sense to apply a somewhat analogous standard in this Proposed ASU.

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?

Response:

We agree with the proposals as they are consistent with the overall concept of this Proposed ASU.

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?

Response:

We agree with the proposed disclosures; however, we believe that the FASB should provide clarification of the intent of “portfolio-level adjustments” in paragraph 12.b.2. from the perspective of the entity’s own credit risk. We fail to see the circumstances in which a reporting entity would discount its own liabilities for its credit risk. The tabular disclosures in the Proposed ASU are good examples of how a reporting entity might comply with the disclosure requirements; however, we believe that the FASB should provide additional disclosure examples. For instance, disclosures of how groups of related party entities report; entities engaged in receivable factoring and companies with agency arrangements might comply with the disclosure requirements, *etc*.

We believe that the tables on pages 19 and 20 of the Proposed ASU should reconcile to each other (for example, column i. Gross Amount of Assets on page 19 should agree with column ii. Gross Amount of Assets Offset Against Liabilities in the

Statement of Financial Position on page 20). We suggest that the FASB either populate these two tables with numbers or provide examples that clarify this matter.

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.

Response:

We agree that the transition requirements should be applied retrospectively. Because we believe that implementation of a final standard has the potential to entail significant time, we believe that implementation of a final standard should not be required for years ending before December 15, 2012. However, early implementation should be permissible.