IASB/FASB Meeting
- Week beginning 13 December 2010

IASB Agenda reference	**4C**
FASB Agenda reference	**9C**

Staff Paper

Project	**Offsetting of financial assets and liabilities**
Topic	**Transitional requirements**

Background

1. At the November 2010 joint Board meeting, the boards discussed offsetting criteria for financial assets and liabilities and made the following tentative decisions:

   (a) An entity would be required to offset a recognised financial asset and financial liability if it has the unconditional right of offset and intends to either net settle or settle simultaneously.

   (b) An unconditional right refers to a right of offset that is enforceable in all circumstances (including default by or bankruptcy of a counterparty).

   (c) Simultaneous settlement refers to realisation of an asset and settlement of a liability at the same moment.

   (d) An entity would not be allowed to offset (net) a recognised financial asset and financial liability if the entity has only a conditional right of offset.

2. If the Board reaches conclusions on bilateral and multilateral arrangements as addressed in agenda paper 4A (IASB)/9A (FASB) and the disclosure requirements in agenda paper 4B (IASB)/9B (FASB), the staff believes that the Boards would have deliberated and reached decisions on all project issues to enable drafting of the exposure draft except for transition requirements.

3. The Boards' Project Plan states that the the boards expect to publish an exposure draft on offsetting of financial assets and liabilities in the first quarter of 2011 and aim to finalise new requirements by 30 June 2011. The staff notes that this requires an unusually tight but achievable schedule.

4. The staff is recommending (see Agenda Paper 4 (IASB)/9 (FASB) January 2011 as the publication date for the ED on offsetting of financial assets and liabilities (this timeline is predicated on the Boards concluding discussions on the issues to be discussed at this meeting and no additional staff analysis is required).

Purpose of this Paper

5. This paper addresses the following items :

   (a) Transition

   (b) Comment period

   (c) Drafting an Exposure Draft

Transition

6. The staff has identified two transition approaches for the Board's consideration, namely, prospective and retrospective. The staff has not considered a limited retrospective transition as this would apply when there has been a change in recognition and measurement whereas this project addresses only presentation and disclosures. The tentative decisions to date represent a significant change in the presentation of the balance sheet for U.S. GAAP preparers. It also represents a

significant change to the disclosure requirements in IFRS and a change to the IFRS offsetting guidance.

7. Prospective transition would only require an entity to apply the relevant provisions on a prospective basis. Prospective transition is generally only appropriate in situations where it is not practicable to apply the provisions of a standard to all prior periods and/or the provisions of the standard apply to discrete nonrecurring events or transactions. The staff does not believe that this is the case with the proposed amendments.

8. The staff also believes that prospective transition would decrease comparability and may be misleading to financial statement users. The staff notes that, under both US GAAP and IFRS, in the year of transition, prospective transition would only require the current year to be modified to reflect the new models for determining when offsetting was appropriate in the financial statements.

9. Retrospective transition would require an entity to apply the new requirements for offsetting to all periods presented. This would maximize consistency of financial information between periods. Retrospective transition will also facilitate analysis and understanding of comparative accounting data. This consideration is more significant under US GAAP as there will be considerable change in the numbers on the face of the balance sheet. The staff recommends a retrospective transition whereby all comparative periods would be presented to reflect the revised netting requirements for consistency and comparability.

Question
Does the Board agree with the staff recommendation outlined in paragraph 9 as it relates to transition? If not, what transition would the Board prefer?

Comment Period

10. The staff recommends a 90-day comment period for the exposure draft. The staff believes that a 90 day comment period is reflective of the significance of the changes to the offsetting criteria and the associated disclosures and hence the amount of time that constituents would need to consider and comment on the proposal. The staff notes that the expected timeline for issuance of a final document is the second quarter of 2011, and the staff believes that the Boards will only be able to meet the targeted issuance date of a final document with a maximum comment period of 90 days.

Question
Does the Board agree with the 90-day comment period?

Drafting

11. If the Board reaches conclusions on bilateral and multilateral arrangements as addressed in agenda paper 4A (IASB)/9A (FASB) and the disclosure requirements in agenda paper XXB as well as the transition and comment period as outlined above, the staff believes that Boards have deliberated and reached decisions on all project issues. As such, the staff will ask the Board for permission to proceed to a ballot draft of an Exposure Draft to be issued subject to vote by written ballot. The proposed project plan and timeline, as outlined in Agenda paper 4A (IASB)/9A (FASB), anticipates publishing an Exposure Draft at the end of January 2011.

Question
Does the Board give the staff permission to ballot a draft?