



Staff Paper

Project	Offsetting of financial assets and liabilities
Topic	Cover note and Project timeline

Background

1. At the September 2010 meeting, the Boards discussed whether and when offsetting of financial assets and liabilities is appropriate or provides useful information. The Boards concluded that the following factors may be helpful in determining when offsetting provides useful information on the face of the statement of financial position or in the notes:
 - (a) whether the parties need to have the ability to offset or settle net
 - (b) whether the parties need to demonstrate an intent to settle net
 - (c) whether the amounts owed under the respective contracts ought to be settled on the same date or be settled simultaneously
 - (d) whether the financial asset and liability ought to have the same maturity
 - (e) whether the financial asset and liability ought to have the same underlying risk
 - (f) whether offsetting should be on the basis of bilateral or multilateral netting arrangements.

2. At the October 2010 meeting, the Boards discussed:
 - (a) description of each of the factors mentioned in paragraph 1;
 - (b) possible interactions among those factors; and
 - (c) a framework for analysing the usefulness of offsetting.

3. At the November 2010 meeting, the Boards discussed further the factors in paragraph 1 and made the following tentative decisions:

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- (a) An entity would be required to offset a recognised financial asset and financial liability if the entity has an unconditional right of offset and intends to either settle the asset and liability net or settle them simultaneously (at the same moment).
- (b) An unconditional right to offset must be enforceable in all circumstances (including default or bankruptcy of a counterparty).
- (c) An entity would not be allowed to offset a recognised financial asset and financial liability if the entity only has a conditional right of offset (eg if the right of offset is conditioned on the bankruptcy or default of the counterparty).

Purpose of this Paper

- 4. This paper sets out a summary of the papers for this meeting and the staff's estimated timing for this project.

Papers for this meeting

- 5. The staff has prepared the following four papers for this meeting:

Agenda Paper 4A: Bilateral and multilateral arrangements

- 6. At the November 2010 meeting, the Boards tentatively decided on offsetting criteria but the Boards did not discuss whether the offsetting criteria apply to both bilateral and multilateral arrangements.
- 7. This paper asks for the Boards decision on whether offsetting should be required for both bilateral and multilateral netting arrangements that meet the offsetting criteria.

Paper 4B: Disclosure requirements

- 8. This paper presents the proposed disclosure requirements to be included in the offsetting of financial assets and liabilities ED.

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Agenda Paper 4C: Transitional requirements

9. This paper sets out the staff's recommendation, together with supporting analysis, with respect to transitional provisions and comment period deadline for the exposure draft (ED) on offsetting of financial assets and liabilities.

Paper 4D: Legal enforceability of right of offset

10. This paper discusses the enforceability of right of offset. This paper is for informational purposes only as several staff papers have addressed the issue in detail. **It is not the intention of the staff to discuss this paper and hence if Board members have questions on this paper, please ensure you contact the staff before the meeting.**

Project plan and timeline

11. The Board's Project Plan states that the boards expect to publish 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.
12. The staff notes that, to the extent the Boards conclude discussions on all the outstanding issues at this meeting (see papers 4A – 4C), January 2011 is a feasible date for issuing an ED for this project. The staff believes that the Boards will only be able to meet the targeted issuance date of a final document (June 2011) and still allow adequate time for constituent feedback (comment period) if the ED is published in January 2011.
13. The staff therefore recommends a publication date of **January 2011**. This timeline is predicated on the Boards concluding discussions on the issues to be discussed at this meeting and no additional staff analysis being required. If the Boards do not do that, the proposed timeline would not be achieved.

Question for the boards

Do you agree with staff recommendation in paragraph 13? If not, how would you change the proposed timings, and why?