



Project	Education Session - Right of Offset
Topic	Cover note

Purpose of this session

1. The purpose of this session is for the Boards to increase their understanding of the role and workings of Master Agreements (of which the ISDA Master Agreement is the predominant form) from the panel of experts we have asked to participate in the session. In particular, the objective is that the Boards increase their understanding of the legal meaning, basis and effect and also the commercial effect of the netting provisions in the ISDA Master Agreement.
2. The purpose of this session is not to:
 - (a) discuss possible criteria (qualification) for offset of financial assets and liabilities for financial reporting purposes; or
 - (b) seek input as to what the right accounting for offset arrangements should be.
3. However, the information and understanding gained from this session should help the Boards in any future deliberations that may address the accounting for right of offset.

Background

4. At the January 2010 meeting the IASB discussed the requirements in IAS 32 *Financial Instruments: Presentation* for offsetting a financial asset and a financial liability. The IASB did not make any decisions at this meeting but asked the staff to organise an education session on netting in general, and in particular the netting provisions under Master Netting Agreements, to help the Boards in any future deliberations that address the accounting for right of offset.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

Agenda

5. In response to the Board's request in January, the staff has invited representatives from banks, industry groups (International Swaps and Derivatives Association) and legal experts (in international financial law) to participate in the education session.
6. There will be a presentation by each of the groups participating in this session:
 - (a) Part I -ISDA presentation. This will be a general "non-legal" overview of the Master Netting Agreement Framework. This portion of the presentation will run for 15 minutes, including the question and answer session (see Paper 16A).
 - (b) Part II-Legal presentation. A group of leading international financial lawyers will share with the Boards the legal basis for offset and the legal basis and effect of the netting provisions in the ISDA Master Agreement Framework and in contracts with central counterparties. There will be 15 minutes for the presentation and 15 minutes for questions and answers (see Papers 16B-1 to 16B-3).
 - (c) Part III-Preparer presentation. Representatives from both European and US investment banks will discuss normal business practices with respect to settlement of assets and liabilities that they are legally permitted to offset (including circumstances limiting the ability to offset and entities' netting policies). There will be 15 minutes for the presentation and 15 minutes for questions and answers (see Paper 16C).

Next steps

7. Following this educational session the Boards will determine any next steps to take with respect to addressing the offsetting rules under both IFRS and US GAAP.