# IASB/FASB Joint Meeting

**Week commencing 14 June 2010**

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| IASB Agenda reference | **4** |
| FASB Memo reference | **1** |

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| Project | **Balance Sheet—Offsetting** |
| Topic | **Project Background and Scope** |

## Purpose

1. The purpose of this memorandum is to discuss offsetting of assets and liabilities in the balance sheet.

2. This paper is accompanied by an Appendix that sets out:

   (a) a summary of the differing contractual/legal offset mechanisms

   (b) an overview of the ISDA master netting framework

   (c) the major differences between US GAAP and IFRS guidance on offset of financial assets and liabilities

   (d) the accounting issues to be addressed in a project on offset of financial assets and liabilities

   (e) a feedback on the joint board's education session on offset in February 2010

## Background

3. 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

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Comments made in relation to the application of IFRSs or U.S. GAAP do not purport to be acceptable or unacceptable application of IFRSs or U.S. GAAP.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

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.

4. In response to the Board's request in January, the staff invited representatives from banks, industry groups (International Swaps and Derivatives Association) and legal experts (in international financial law) to participate in the education session for the joint board in February 2010. Appendix A to this paper summarises the discussions from that session.

5. This project was added to the FASB's agenda in February 2010 when the Board was evaluating a possible agenda project to consider whether to permit offsetting for certain stock lending and stock borrowing transactions. The Board decided that instead of adding a project to consider this specific and narrow issue, it would be more appropriate to review broadly the general principles/criteria in current GAAP that permit offsetting in the balance sheet.

## Current U.S. GAAP and IFRS Guidance on Sheet Offsetting

## U.S. GAAP

#### *Right of Setoff Criteria*

6. Codification Subtopic 210-20, *Balance Sheet—Offsetting,* states that it is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except if a right of setoff exists. Paragraph 210-20-45-1 states that, "A right of setoff exists when all of the following conditions are met:

   (a) Each of two parties owes the other determinable amounts.

   (b) The reporting party has the right to set off the amount owed with the amount owed by the other party.

   (c) The reporting party intends to set off.

   (d) The right of setoff is enforceable at law."

7. Paragraphs 210-20-45-3 and 210-20-45-4 state:

> **210-20-45-3** If the parties meet the criteria specified in paragraph 210-20-45-1, specifying currency or interest rate requirements is unnecessary. However, if maturities differ, only the party with the nearer maturity could offset because the party with the longer term maturity must settle in the manner that the other party selects at the earlier maturity date.
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> **210-20-45-4** If a party does not intend to set off even though the ability to set off exists, an offsetting presentation in the statement of financial position is not representationally faithful.

***Exceptions to the Criteria***

8. For a financial instrument that meets the definition of a derivative in Topic 815 (originally issued as FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*), a reporting entity is permitted to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value and executed with the same counterparty under a master netting arrangement even when the reporting entity does not intend to settle net (Paragraph 815-10-45-5).

9. Furthermore, paragraph 210-20-45-11 permits entities to offset amounts recognized as payables under repurchase agreements and amounts recognized as receivables under reverse repurchase agreements if specified criteria are met, including a master netting arrangement and having the same explicit settlement date specified at the inception of the agreement.

***Background history and reasons for the derivative instruments exception in Current GAAP***

10. The exception for permitting offsetting of derivative instruments was first introduced in U.S. GAAP in 1991 when the Board issued FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*. Summarized below is a brief history of how and why the FASB decided to permit this exception.

11. Earlier drafts of Interpretation 39 did not include the exception for derivative instruments (referred to in Interpretation 39 as *conditional or exchange contracts*). On February 21, 1991, some members of the Board and staff met with representatives of the New York Clearing House and some banks. The purpose of the meeting was to inform the FASB about master netting agreements. These constituents were concerned about appropriately considering the impact of these agreements in Interpretation 39 that the Board was considering at that time. The bank representatives asserted that the cost to comply with the new standard will be significant. They also were concerned with the effect of gross presentation on the leverage ratio and regulatory capital. The representatives argued that a net presentation of contracts that are subject to master netting agreements more appropriately presents the net credit risk of the counterparty.

12. At the March 5, 1991 Board meeting, the FASB staff recommended that the Board permit offsetting for swap and forward transactions (and other conditional or exchange contracts) executed under a master netting agreement that provide for net settlement of all transactions in the event of default. The staff rationale for that recommendation was that a gross presentation for such transactions would overstate the credit risk in the balance sheet. The staff also noted that unlike other receivables and payables, these contracts (for example, forwards and swaps) are conditional in nature and their gross presentation would provide little information about future cash flows.

13. Based on these arguments, the Board agreed to permit the exception for derivative instruments when specified criteria are met even though the reporting entity does not intend to set off. The Board's reasoning for the exception was described in paragraph 21 of Interpretation 39 as follows:

> The Board decided to permit offsetting of the fair value recognized for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts if they are executed with the same counterparty under master netting arrangement. That arrangement effectively consolidates individual contracts into a single agreement between the parties. The failure to make one payment under the master netting arrangement would entitle the other party to terminate the entire arrangement and to demand the net settlement of all contracts. The Board believes that an exception to the requirement of paragraph 5(c) of this Interpretation, which states that "the reporting party intends to set off" is justified when a master

> netting arrangement exists because **the net presentation discloses the amount of credit risk exposure under that arrangement**. The Board decided that, given a master netting arrangement, presentation of the aggregate fair values of the individual contracts executed under that arrangement would not provide more information about the uncertainty of future cash flows from those contracts than net amounts would. [Emphasis added.]

14. In 2007, the Board issued FASB Staff Position (FSP) FIN 39-1 to amend Interpretation 39 to permit offsetting of fair value of cash collateral amounts related to derivative instruments. Paragraph A2 of that FSP describes the Board's belief that when a master netting arrangement exists, offsetting fair value amounts recognized upon payment or receipt of cash collateral against fair value amounts recognized for the derivative instruments fairly portrays the amount of credit risk exposure under the entire arrangement.

***Reasons for repurchase and reverse repurchase exception in current GAAP***

15. In 1994, the Board issued FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements,* that permits offsetting of payables and receivables related to repurchase and reverse repurchase agreements if specified criteria are met. The specified criteria include that the agreements have the same settlement date, are executed with the same counterparty under a master netting arrangement, the securities exist in "book entry" form, and the agreements will be settled in the manner described in the Interpretation.

16. Paragraph 9 in the basis for conclusions of Interpretation 41 states that if *daylight overdraft or other intraday credit* privileges and certain other conditions (including the existence of a master netting arrangement) are present, then settlement, while on a gross basis, may be considered for accounting purposes as the functional equivalent of net settlement from the perspective of the parties to repurchase and reverse repurchase agreements that have the same settlement date.

## IFRS Guidance on Offsetting

17. Paragraph 32 of IAS 1, *Presentation of Financial Statements*, states that: "An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS."

18. Paragraph 42 of IAS 32, *Financial Instruments: Presentation,* states that:

> A financial asset and financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:
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> (a) Currently has a legal enforceable right to set off the recognized amounts; and
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> (b) Intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

19. Paragraph 48 of IAS 32 provides the following guidance on the meaning of a *simultaneous* settlement of a financial asset and a financial liability:

> Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organised financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.

20. Unlike U.S. GAAP, IFRS guidance (a) does not allow for the possibility of nonfinancial assets and liabilities to be offset, and (b) provides no exception to the above requirements for either derivative instruments or repurchase and reverse repurchase agreements.

21. Furthermore, when the offsetting criteria are met, IFRS requires entities to offset financial assets and financial liabilities while U.S. GAAP permits, but not require, offsetting when the specified criteria are met.

## Scope of Offsetting Guidance under U.S. GAAP and IFRS

***Offsetting under U.S. GAAP***

22. U.S. GAAP provides no entity scope exceptions; however, paragraph 210-20-15-2 excludes the derecognition or nonrecognition of assets and liabilities from the scope of subtopic 210-20, *Balance Sheet Offsetting*. In addition, paragraph 210-20-15-3 states that the offsetting guidance in subtopic 210-10 does not modify the accounting treatment in the particular circumstances prescribed by the following paragraphs and subtopics:

    (a) Paragraphs 840-30-35-32 through 35-52 (leveraged leases)

    (b) Subtopic 715-30 (accounting for pension plan assets and liabilities)

    (c) Subtopic 715-60 (accounting for plan assets and liabilities)

    (d) Subtopic 740-30 (net tax asset or liability amounts reported)

    (e) Subtopics 940-320 (trade date accounting for trading portfolio positions) and 910-405 (advances received on construction contracts)

    (f) Paragraph 942-305-45-1 (reciprocal balances with other banks).

***Offsetting under IFRS***

23. IAS 1 provides the following regarding offsetting in paragraphs 32-35.

> 32. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.
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> 33. An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of comprehensive income or financial position or in the separate income statement (if presented), **except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows [emphasis added]**. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.
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> 34. IAS 18 Revenue defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the

substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35. In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

24. IAS 32, *Financial Instruments: Presentation,* contains the IFRS guidance on offsetting with respect to financial instruments. IAS 32 applies to all entities and all financial instruments except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39, *Financial Instruments: Recognition and Measurement*; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

(b) employers' rights and obligations under employee benefit plans, to which IAS 19, *Employee Benefits* applies.

(c) contracts for contingent consideration in a business combination (see IFRS 3, *Business Combinations*). This exemption applies only to the acquirer.http://www.pwccomperio.com/docviewer.aspx?from=tree&docid=3127848 - ias32_amendments_fn_pr4ca

(d) insurance contracts as defined in IFRS 4, *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

(e) financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15-32 and AG25-AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IAS 39).

(f) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2, *Share-based Payment* applies, except for (a) contracts within the scope of paragraphs 8-10 of this Standard, to which this Standard applies and (b) paragraphs 33 and 34 of this Standard, which shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

25. The offsetting provisions of IAS 32 are applicable to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale, or usage requirements.

## Summary of Input from Initial Outreach to Constituents

***Users***

26. The staff presented a brief background of the project and a few discussion questions at the April 13, 2010 Investors Technical Advisory Committee (ITAC) meeting in order to obtain members' views on this issue. The following are the key points from views received at that meeting:

(a) The members prefer a 'gross' presentation of assets and liabilities with no offsetting. They would like to use the 'gross' numbers for their ratio analysis because they are more comparable. For example, for purposes of computing tangible common equity, analysts like to use regulatory-basis assets rather than GAAP assets because of the offsetting permitted under current U.S. GAAP.

(b) A 'gross' presentation is more appropriate even in cases of synthetic terminations of derivative instruments, for example, when an entity with an outstanding interest rate swap or a commodity futures contract enters into an offsetting contract with the same counterparty to 'lock-in' the gain or loss on the original contract. Members believe that useful information is lost when offsetting is permitted in these situations where the original contract is not terminated or canceled.

(c) Members are concerned that offsetting results in presenting reduced leverage in the balance sheet, and therefore, could be misleading. Members would prefer to determine for themselves in which circumstances offsetting is appropriate, and if so, use offsetting as part of their analysis rather than the permissive or optional offsetting under current U.S. GAAP.

(d) If the Boards were to specify criteria for offsetting, the members would prefer that offsetting be required (rather than permitted) when those criteria are met. Permissive or optional accounting hinders comparability among companies in the same industry.

(e) Members were not persuaded by the argument that the risk of default for an exchange-cleared transaction is low because the exchange may not have adequate capital to avoid defaults during a major market meltdown.

(f) Members also were not convinced that offsetting should be allowed just because the maturities of the asset and the liability are identical. They pointed out that even when the maturities of the asset and the liability are identical, the counterparty can refuse to give up the asset to the reporting entity yet demand that the reporting entity pay its liability. For example, this could happen when the counterparty is either in bankruptcy or near bankruptcy.

(g) Members believe that it is more important to ensure that the items to be offset have the same risks and characteristics than having the same maturities. For example, they would not offset an interest rate derivative asset with a commodity derivative liability even if their maturities were identical because the risks and characteristics of the two derivatives are different.

(h) One of the objectives of the offsetting project should be to achieve greater convergence with IFRS because it would improve comparability.

(i) In some other projects such as leasing, revenue recognition, and financial statements presentation, the Board has tentatively decided to require a ‘linked’ presentation where related assets and liabilities are presented together in a specified manner. The Board should clarify how a ‘linked’ presentation is different from offsetting and presenting just one ‘net’ number. The Board also should clarify how offsetting is different from derecognition.

***Auditors***

27. The staff sent a ‘Request for Information’ paper to the Big 4 Accounting Firms in the U.S. Most firms believe that the FASB should establish a principle for what the balance sheet is intended to communicate to users and offsetting of balance sheet should follow that principle or justify any deviations from it. Another firm supported the existing offsetting guidance in U.S. GAAP and believe it is the best presentation for derivatives and repurchase agreements.

***Preparers***

28. The staff sent a 'Request for Information' paper to selected financial statement preparers that prepare their financial statements under U.S. GAAP. The following is a brief summary of their key points on gross versus net presentation of derivatives and repurchase transactions:

    (a) Preparers support continuing to allowing the existing net presentation under U.S. GAAP for derivatives and repurchase transactions.

    (b) Preparers are concerned that a gross presentation may mislead investors into believing that there is more credit risk exposure that actually exists.

    (c) Preparers are also concerned that a large derivative and repurchase liability balance may cause long-term financing liabilities to be dwarfed on the balance sheet, which may mislead investors.

    (d) Preparers do not believe the balance sheet is a good indicator of cash flow information especially for derivate transactions that may be measured as the present value of a series of cash inflows and outflows (for example, an interest rate swap).

    (e) Some prepares believe that there is already adequate liquidity information about derivatives and repurchase agreement in the balance sheet between the combination of netting of asset and liability positions with collateral postings.

    (f) Preparers observed that gross amounts are disclosed in the footnotes to the financial statements and that financial institution that prepare their financial statements under IFRS typically reconcile back to a U.S. GAAP balance sheet presentation in their disclosures.

29. The staff plans to hold meetings with banking regulators to obtain their views; however, those discussions have not been held.

## Summary of Information Obtained About the Characteristics of Clearing House and Exchange Transactions

30. The staff held a discussion with representatives from a credit rating agency in order to obtain a better understanding of how transactions are executed at various clearing houses. The following summary represents a summary of that discussion as well as material from other research sources.

31. Some of the major clearing houses are:

- National Securities Clearing Corporation (NSCC) is owned by Depository Trust & Clearing Corporation (DTCC) which, in turn, is owned by its members. NSCC primarily clears equity securities transactions for companies that are listed on exchanges such as the New York Stock Exchange (NYSE) and NASDAQ.

- Fixed Income Clearing Corporation (FICC) is also owned by DTCC and primarily clears transactions in U.S. Treasury securities and Agency securities.

- Chicago Mercantile Exchange (CME) has its own clearing house that clears a vast majority of all futures transactions in the U.S.

- Options Clearing Corporation (OCC) primarily clears transactions in options.

- London Clearing House (LCH.Clearnet) is Europe's largest clearing house which is owned 73.3 percent by users, 10.9 percent by exchanges and 15.8 percent by Euroclear.

32. The common features of transactions that are processed by clearing houses include the following:

- The clearing house is a party to every contract, by novation, to buy or sell a security or a derivative instrument and is known as the central clearing party (or CCP). Thus, when a customer or a broker executes a buy or sell order the counterparty is the CCP. Because there are two parties to every contract and the CCP is on both sides of the contract, the CCP is always in a net zero or neutral position.

- In order to ensure performance of each transaction, the CCP rules require each clearing member to put up a specified initial margin for each order. The amount of initial margin depends on the risk characteristics of the contract, for example, how much the contract price can move in one day.

- Once a day (or sometimes, twice a day, depending on the type and total volume of the open contracts by a clearing member), the clearing house receives and pays a variation margin to each clearing member based on the *net* unrealized gains and losses on all their open positions.

- If the clearing house does not receive the variation margin due on any given day, it reserves the right to liquidate the member's open positions—generally by auctioning those off to other clearing members.

- Many clearing houses also require their members to post performance bonds which are backed up by cash, treasury securities, or letters of credit.

- In some cases, the above default-protection steps are further enhanced by (1) the clearing house committing a portion of its own capital and purchasing a guarantee from an insurance company, and (2) the right to call for additional performance bonds from nondefaulting members.

33. In addition to the authority to impose margin requirements on its members, the clearing house has other means to fund any shortfalls created by a defaulting member. While the details vary by clearing houses and exchanges, the following illustrate the various sources available to the London Clearing House per the default fund rules of LCH. Clearnet Limited (Source: paragraph 16 "Reduction of Losses on Default" of its Default Fund Rules, July 2009):

> **Reduction of Losses on Default**
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> 16. Subject to any contrary provision of the Rulebook, where a defaulter fails to pay any sum payable to the Clearing House, the Clearing House shall reduce or bear its loss in the manner provided by this Rule:-

(1) first, to the extent the Clearing House determines appropriate, in applying any cover for margin and any other sum owed to the defaulter other than his Contribution;

(2) second, in applying by set-off the defaulter's own Contribution;

(3) third, by payment from the Clearing House's own account of an amount up to a maximum of £20,000,000 (or such greater amount (if any) as may be determined from time to time by the Board of the Clearing House), (the "Capped Amount");

(4) fourth, to the extent that any insurance or analogous arrangement is not available to the Clearing House, by recourse to the indemnities given under Rule 28 by Clearing Members other than the defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay such Clearing Members' Contributions);

(5) fifth, by recourse to any insurance cover or analogous arrangement;

(6) sixth, by recourse to any undischarged balance of the indemnities given under Rule 28 by Clearing Members other than the defaulter (which shall be satisfied by set-off against the Clearing House's obligation to repay such Clearing Members' Contributions);

(7) seventh, by recourse to any other indemnities, guarantees, undertakings or monies provided by Clearing Members; and

(8) eighth, as a loss borne by the Clearing House for its own account.

This Rule has effect without prejudice to any rights of the Clearing House or any other person against the defaulter.

34. Similarly, the Chicago Mercantile Exchange can take several emergency actions under certain circumstances as summarized below:

**Chicago Mercantile Exchange**

**http://www.cmegroup.com/rulebook/CME/I/4/**

**403.C. Emergency Actions**

1. The CHRC is authorized to determine whether an emergency exists and whether emergency action is warranted. The following events and/or conditions may constitute emergencies:

a. Any circumstances which may materially affect the performance of contracts traded on the Exchange, including failure of the payment system;

b. Any action taken by the United States or any foreign government or any state or local government body, any other contract market, board of trade, or any other exchange or trade association (foreign or domestic), which may have a direct impact on trading on the Exchange;

c. The actual or threatened bankruptcy or insolvency of any Member or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a Member of the Exchange which may affect the ability of that Member to perform on its contracts;

d. Any circumstance in which it appears that a Member or any other person or entity has failed to perform contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such person or entity cannot be permitted to continue in business without jeopardizing the safety of customer funds, Members, and/or the Exchange; and/or

e. Any other circumstances which may have a severe, adverse effect upon the functioning of the Exchange.

2. In the event that the CHRC determines, in the good faith exercise of its sole discretion, that an emergency exists, it may take any of the following emergency actions or any other action that may be appropriate to respond to the emergency:

   a. Order the Clearing Member or his customer to deposit such additional performance bond with the Clearing House as deemed appropriate to protect the integrity of open contracts;

   b. Prescribe such additional capital requirements as it deems appropriate;

   c. Prescribe such position limitations as it deems appropriate;

   d. Order special or advance performance bond or funds to be deposited with the Clearing House from Members or from longs, shorts or both; and/or

   e. Order such performance bond changes as it deems appropriate.

   All actions taken pursuant to this subsection shall be by majority vote of the committee members present. A Member affected by the action taken shall be notified in writing of such action. As soon as practicable, the Board and the CFTC shall be promptly notified of the emergency action in accordance with CFTC regulations. Nothing in this section shall in any way limit the authority of the

Board, other committees, or other appropriate officials to act in an emergency situation as defined by these rules.

## Interaction with Other Projects

35. The scope of the Financial Statement Presentation (FSP) project includes offsetting. The preballot draft of the exposure draft distributed on April 14, 2010, amends Topic 205 of the Codification™ as follows:

    **205-10-45-22** A reporting entity shall not offset assets and liabilities, or items of income and expense or cash inflows and cash outflows, unless required to, or permitted to, by U.S. GAAP.

36. The IASB project on derecognition addressed offsetting in its January 20, 2010 Board meeting. In the staff draft of the derecognition exposure draft, dated April 14, 2010, offsetting is only addressed in context of transfers that do not qualify for derecognition. It states that for assets that continue to be recognized, that is, fail the derecognition test, the asset and associated liability shall not be offset. Additionally, any income arising from the asset shall not be offset with expenses incurred on the associated liability.

| Question for the Boards: |
| --- |
| (a) Do the Boards want to address offsetting of financial assets and liabilities only or offsetting of all assets and liabilities in this project?<br><br>(b) Do the Boards require further information or analysis to be able to decide a way forward? If so what additional information or analysis would you require and why? |