

Staff Paper

Project	Offsetting of financial assets and liabilities
Topic	Balance sheet analysis – For informational purposes only

Purpose

1. At the October 2010 joint board meeting, the staff provided the boards with an overview of differences in balance sheets of US GAAP and IFRS preparers with respect to offsetting (netting) of financial assets and liabilities. The staff indicated they would provide the boards with a more detailed analysis for the November joint board meeting.
2. This paper provides :
 - (a) a table analysing the balance sheet effects of netting,
 - (b) a brief description of banks’ accounting policies around offsetting (netting),
and
 - (c) a summary of banks’ note disclosures around offsetting (netting).

This paper is for informational purposes only.

Analysis of the balance sheet effects of netting

3. The staff reviewed and excerpted information from the published financial statements of six financial institutions: three banks that report under US GAAP and three IFRS preparers.
4. The balance sheet analysis focuses on two measures: netting as a percentage of “gross” derivative assets and netting as a percentage of total “gross” assets. The analysis is based on information extracted from the banks’ balance sheets and notes

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

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

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

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.

IASB/FASB Staff paper

to the financial statements for financial years ended 2009 and 2008. The results are included in the following tables. As noted below, the adjustments for netting as disclosed in the US GAAP financial statements do not necessarily reflect the netting adjustments for repurchase agreements or trade receivables and payables. In addition, not all IFRS preparers disclose the adjustments they have made for netting in accordance with IAS 32, *Financial Instruments: Presentation*.

IASB/FASB Staff paper

Financial years ended 2009:

	US GAAP Preparers			IFRS Preparers		
	Bank A1	Bank A2	Bank A3	Bank B1	Bank B2	Bank B3
“Gross” derivative assets¹	\$1,565	\$1,495	\$704	\$318	not available²	not available²
Less: derivative netting adjustments ³	(1,485)	(1,414)	(645)	(67)	not available ²	not available ²
Derivative assets on balance sheet ⁴	\$80	\$81	\$59	\$251	£417	€96
Netted amounts as % of “gross” derivative assets	95%	95%	92%	21%	not available²	not available²
Total “gross” assets¹	\$3,517	\$3,637	\$2,556	\$2,431	not available²	not available²
Less: netting adjustments disclosed ³	(1,485)	(1,414)	(699) ⁵	(67)	not available ²	not available ²
Total assets on balance sheet ⁴	\$2,032	\$2,223	\$1,857	\$2,364	£1,379	€1.501
Netted amounts as % of total “gross” assets	42%	39%	27%	3%	not available²	not available²

¹ “Gross” derivative assets and total “gross” assets include the netting adjustments that have been made available in the published financial statements. As some US GAAP preparers have not disclosed all adjustments related to repo netting, or netting of trade assets and liabilities, this amount may not include all gross amounts.

² There are no specific requirements under IFRS 7, *Financial Instruments: Disclosures*, to disclose the amounts that are offset in accordance with IAS 32, *Financial Instruments: Presentation*. As such, these entities did not disclose the netting adjustments that they made, if any, under IAS 32. As a result, the netting adjustments, as well as total “gross” derivatives and total “gross” assets cannot be determined from the published financial statements.

³ These netting adjustments are disclosed in the related notes to the published financial statements. The IFRS netting adjustment is based on the unconditional right and intent to settle net.

⁴ Amounts are per the published balance sheets or related notes to the financial statements.

⁵ The netting adjustments disclosed for this bank include amounts netted for repurchase agreements and other assets that were not net against the derivative assets.

IASB/FASB Staff paper

Financial years ended 2008:

	US GAAP Preparers			IFRS Preparers		
	Bank A1	Bank A2	Bank A3	Bank B1	Bank B2	Bank B3
“Gross” derivative assets⁶	\$2,742	\$1,536	\$1,172	\$553	not available⁷	not available⁷
Less: derivative netting adjustments ⁸	(2,579)	(1,473)	(1,057)	(58)	not available ⁷	not available ⁷
Derivative assets on balance sheet ⁹	\$163	\$63	\$115	\$495	£985	€1,225
Netted amounts as % of “gross” derivative assets	94%	96%	90%	11%	not available⁷	not available⁷
Total “gross” assets⁶	\$4,754	\$3,291	\$3,026	\$2,585	not available⁷	not available⁷
Less: netting adjustments disclosed ⁸	(2,579)	(1,473)	(1,088) ¹⁰	(58)	not available ⁷	not available ⁷
Total assets on balance sheet ⁹	\$2,175	\$1,818	\$1,938	\$2,527	£2,053	€2,202
Netted amounts as % of total “gross” assets	54%	45%	36%	2%	not available⁷	not available⁷

⁶ See footnote 1

⁷ See footnote 2

⁸ See footnote 3

⁹ See footnote 4

¹⁰ See footnote 5

IASB/FASB Staff paper

Comparison of US GAAP and IFRS preparers (financial years ended 2009):

Netted amounts as % of “gross” derivative assets			
US GAAP preparers	95%	95%	92%
IFRS preparers	21%	not available	not available
Netted amounts as % of total “gross” assets			
US GAAP preparers	42%	39%	27%
IFRS preparers	3%	not available	not available

Comparison of US GAAP and IFRS preparers (financial years ended 2008):

Netted amounts as % of “gross” derivative assets			
US GAAP preparers	94%	96%	90%
IFRS preparers	11%	not available	not available
Netted amounts as % of total “gross” assets			
US GAAP preparers	54%	45%	36%
IFRS preparers	2%	not available	not available

- As illustrated in the above tables, the amounts that are netted differ substantially between the US GAAP preparers and the IFRS preparers (and even between preparers that apply the same accounting standards). This is consistent with feedback the staff received on the netting project to date and underscores the importance of a “level playing field” between US GAAP and IFRS preparers.
- The amounts that are netted in accordance with US GAAP can be a significant portion of the “gross” derivative assets and total “gross” assets. By contrast, the amounts, if any, that are netted under IFRS do not seem to be significant. The

IASB/FASB Staff paper

actual amounts however are not readily apparent when reviewing the published financial statements of the selected IFRS preparers.

Accounting policies

7. In reviewing the banks' disclosures around their netting policies, we found that disclosures vary, even within IFRS and US GAAP preparer groups.

US GAAP preparers

8. These banks have disclosed their policies for netting in various places. Some provide transparent disclosures of accounting policy in respect of netting. Others include the policies in less obvious places, such as the footnotes to the financial instruments tables. Others disperse them throughout the notes to the financial statements.
9. These preparers have elected to net derivative assets, liabilities and cash collateral as allowed under US GAAP when specific requirements are met.
10. The banks describe other credit risk mitigation factors such as entering into transactions with exchanges or clearing houses, as well as margin and collateral arrangements. Some discuss how they manage their derivative-risk positions through offsetting trade activities.

IFRS preparers

11. These preparers provide descriptions of their derivative netting policies in their policy notes. Some provide additional information throughout the notes to the financial statements when describing various tables.

IASB/FASB Staff paper

Note disclosures around offsetting*US GAAP preparers*

12. In accordance with SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment to SFAS 133*¹¹, US GAAP preparers disclose a variety of information, including the gross fair value of financial assets and liabilities, amounts netted under master netting agreements, net fair values of derivative assets and liabilities by contract type and netting across levels of the fair value hierarchy. Only one bank disclosed the adjustment to net amounts due against amounts owed under repurchase and reverse repurchase agreements. Tables showing the current credit risk of derivative receivables (after netting) and the current liquidity risks of derivative payables after netting are also provided.
13. Qualitative information is included describing the use of master netting agreements, collateral arrangements to mitigate derivative counterparty credit risk and mitigation of liquidity risk by posting additional collateral for net liability positions. Descriptions of the use of derivatives (ie client transactions, propriety trades and management of risk exposures) are also included.

IFRS preparers

14. In accordance with IFRS 7 *Financial Instruments: Disclosures*, these banks include quantitative information about the fair value of derivatives by contract type. Only one bank out of the three reviewed disclosed the actual amounts that were netted (in accordance with IAS 32 requirements). Some banks include the amounts that would have been net if cash collateral netting was permitted under IAS 32, and others provide information about the maximum exposure to credit risk.
15. There is qualitative information about credit risk management activities and use of derivatives (ie client transactions, propriety trades and management of risks). Similar to the US GAAP preparers, information is provided describing the use of master netting agreements and collateral arrangements to mitigate derivative counterparty credit risk.

¹¹ Now incorporated into ASC 815-10-50, *Derivatives and Hedging—Disclosure*.