
Staff Paper

Project **Offsetting of financial assets and liabilities**

Topic **Cover note**

Background

1. At the September 2010 meeting, the boards discussed the appropriateness of offsetting of financial assets and liabilities, in the context of their respective, and now final joint conceptual frameworks. The Boards also discussed a staff paper summarising the feedback from users on the usefulness of offsetting.
2. 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.
3. At the October 2010 meeting the Boards discussed the following:
 - (a) description of each of the factors mentioned in paragraph 2;

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- (b) possible interactions among those factors; and
 - (c) a framework for analysing the usefulness of offsetting.
4. The Boards discussed whether an entity should be able to offset a recognised financial asset and liability if the entity has an unconditional right of offset and intends to settle net. The Boards also communicated their desire to consider whether there are any other circumstances under which it may be appropriate to offset.

Papers at this meeting

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

Agenda Paper 3A: Primary model – unconditional right and intention to offset

6. This paper asks for the Boards decision on:
- a. whether an unconditional right and intention to offset should form the primary basis for offset under any offset model that may be developed in this project;
 - b. whether the right of offset (unconditional right of offset) should be enforceable in the normal course of business or it should be enforceable both in the normal course of business and in the default or bankruptcy of a counterparty; and
 - c. whether offsetting should be permitted or required if an entity meets the criteria for offset.

Agenda Paper 3B: Simultaneous settlement of financial asset and liability

7. This paper discusses whether and when simultaneous settlement ('to realise an asset and settle a liability simultaneously' or 'at the same moment') should qualify for offset.

Paper 3C: Unconditional right to offset

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8. This paper discusses whether and when offsetting based on a conditional right of offset (ie the offset right is enforceable in default or similar circumstances), such as close-out netting in a master netting agreement or in non-recourse debt arrangement or a bankers right to offset customer deposit and loans, is appropriate.

Paper 3D: A comparison of financial statements prepared under IFRS and US GAAP

9. This paper compares financial statements of some financial institutions that report under IFRS and US GAAP. The objective is to provide feedback on current practice, the magnitude of the differences in reported numbers due to the differences in the accounting requirements on offset and the impact of offset on the respective financial statements.