

Staff Paper

Project	Offsetting Financial Assets and Liabilities
Topic	Cover Note

Background

1. At the 17 May 2011 joint meeting, the boards discussed the feedback received on the proposals in the Exposure Draft – *Offsetting Financial Assets and Financial Liabilities* ('ED'). Based on the feedback received, the boards requested further analysis of the following issues before deciding on a way forward:
 - i. Unit of account
 - ii. Treatment of collateral /margin
 - iii. Simultaneous settlement criterion
2. At the 1 June 2011 joint meeting, the boards held an education session and a joint board meeting.
3. At the education session, representatives of the International Swap and Derivatives Association (ISDA) and clearinghouses discussed with the boards the issues raised in comment letters on the treatment of collateral in the ED.
4. At the joint meeting, the staff provided the boards with an analysis of the issue of unit of account and treatment of collateral/margin (Agenda Paper 1C/Memo 14C – Week commencing 30 May 2011).
5. At that meeting, the boards asked the staff to prepare a decision-making paper on alternative models for offsetting (based on unconditional and conditional right of set-off), as well as papers that address feedback on the treatment of

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collateral/margin , unit of account, the simultaneous settlement criterion, and the meaning of an unconditional and legally enforceable right of set-off.

6. At the 14 June joint meeting, the boards considered alternative models for offsetting (unconditional and conditional right of set-off approaches).
7. The IASB voted unanimously in favor of an offsetting model based on an unconditional right and intention to offset (**Alternative 1**). The majority of the FASB voted in favor of an offsetting approach based on conditional right of set-off for some derivative instruments (**Alternative 3**).
8. The boards noted that users have consistently asked that information be provided to help reconcile any differences in the offsetting requirements for IFRSs and US GAAP.
9. The boards decided to work on converging disclosure requirements to assist users in comparing financial statements prepared in accordance with IFRSs and US GAAP.
10. The staff recommendation for revised disclosure requirements will be discussed by the boards at the July joint meeting.

Purpose

11. This paper is accompanied by five other papers, to be discussed by the IASB only, Agenda Papers 6A – 6D. Agenda Papers 6B – 6D discuss alternative approaches for how the Board might address concerns raised in the comment letters.

Agenda Paper 6A: Offsetting Model – IFRS

12. The discussions and the choice of the IASB (at the June joint meeting) for a model based on an unconditional right of set-off and an intention to set off (ie the approach proposed in the ED with some modifications) was in the context of the boards developing a converged guidance on offsetting of financial assets and financial liabilities. As noted in paragraph 7, the majority of the FASB voted in favor of an offsetting approach based on a conditional right of set-off for some derivative instruments. The boards decided not to continue work on developing a common guidance on offsetting of financial assets and financial

liabilities on the face of the statement of financial position but rather to focus on agreeing common disclosures.

13. Agenda Paper 6A asks for the Board's confirmation as to whether they would like to move forward with the ED, as modified by Agenda Papers 6B – 6D (**Approach A**), or retain the offsetting requirements in IAS 32 today (**Approach B**).

Agenda Paper 6B: Unit of account and treatment of collateral

14. This paper discusses how the Board might address the concerns raised about the prohibition of offset of collateral, as well as potential approaches to addressing the issue of unit of account.

Agenda Paper 6C: Simultaneous settlement and intent criteria

15. This paper addresses concerns raised about the definition of simultaneous settlement in the ED, as well as the meaning of intent.

Agenda Paper 6D: Right of offset: Unconditional and legally enforceable

16. This paper discusses concerns raised about the proposed definition of an unconditional and legally enforceable right of set-off. It also discusses the level of assurance, if any, required to conclude that a right of set-off is 'legally enforceable'.
17. Whatever decisions the Board makes in papers 6A-6D, the boards will develop disclosure requirements that will supplement their respective offsetting models.
18. **Agenda Papers 6B-6D are based on and are substantially the same as Agenda Papers 5B-5D/Memos 15B-15D from the 14 June joint meeting. Those papers are only relevant if the Board decides to pursue Alternative A, ie to finalise the approach in the ED.**