



Staff Paper

Project	Offsetting Financial Assets and Liabilities
Topic	Cover Note

Purpose

1. At the 17 May 2011 joint meeting, the boards discussed the feedback received on the proposals in the ED (Agenda Paper 5/Memo 13A – May 2011). Based on the feedback received, the boards requested further analysis of the following issues before deciding on a way forward:
 - (a) Unit of account
 - (b) Treatment of collateral /margin
 - (c) Simultaneous settlement criterion
2. At the 1 June 2011 joint meeting, there was an education session and a joint board meeting. At the education session, representatives of the International Swap and Derivatives Association (ISDA) and clearinghouses further explained the issues raised in comment letters on the treatment of collateral in the ED.
3. At the joint meeting, the staff provided the boards with background on unit of account and treatment of collateral/margin (Agenda Paper 1C/Memo 14C – Week commencing 30 May 2011). The boards asked the staff to prepare a decision-making paper with alternative models for unconditional and conditional offsetting, as well as papers that address feedback on the treatment of collateral/margin , the unit of account, the simultaneous settlement criterion, and the meaning of an unconditional and legally enforceable right of set-off.

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.

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4. The issues mentioned in paragraph 3 are addressed in Agenda Papers 5A-5D/Memos 15A-15D. A brief overview of each paper is provided in the following paragraphs.

Unconditional and conditional rights of set-off

5. Agenda Paper 5A/Memo 15A sets out three alternatives for the offsetting criteria:
 - (a) the approach proposed in the ED (ie a model based on unconditional right and intention to offset) taking into account the analysis and recommendations of the staff in Agenda Papers 5B-5D/Memos 15B-15D (**Alternative 1 – refer to Appendix A of Agenda Paper 5A**),
 - (b) an approach that requires offsetting if an entity has a currently enforceable legal right to set off the recognised amounts (and intends either to settle net or settle simultaneously) (**Alternative 2 – refer to Appendix B of Agenda Paper 5A**), and
 - (c) an approach that is based on conditional rights of offset for all or some financial instruments (**Alternative 3 – refer to Appendix C of Agenda Paper 5A**)
6. Agenda Paper 5A/Memo 15A asks the boards which of Alternatives 1-3 they would like to pursue. It does not contain a staff recommendation. If the boards choose Alternative 3 for further analysis, the remaining staff papers for this meeting will not need to be discussed.

Papers addressing respondents' comments on the ED

7. The following papers discuss alternatives for how the boards might address concerns raised in the comment letters. They also contain staff recommendations for addressing those concerns, and are only relevant if the boards decide to pursue the approach proposed in the ED. They are:
 - (a) Agenda Paper 5B/Memo 15B: This paper discusses alternatives for how the boards 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.

- (b) Agenda Paper 5C/Memo 15C: This paper addresses concerns raised about the definition of simultaneous settlement in the ED, as well as the meaning of intent.
- (c) Agenda Paper 5D/Memo 15D: This paper discusses concerns raised about the proposed definition of unconditional and legally enforceable right of set-off in all circumstances and includes staff recommendations for addressing the issues.