

Staff Paper

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Project	Offsetting Financial Assets and Liabilities		
Topic	Cover Note		

Background/Purpose

1. At the June 2011 joint meeting, the IASB and the FASB discussed and decided to move forward with different approaches for offsetting recognised financial assets and recognised financial liabilities on the statement of financial position.
2. Based on the decisions made in the June 2011 joint meeting, at the July 2011 IASB-only main meeting the Board tentatively decided to retain the existing offsetting criteria in IAS 32 *Financial Instruments: Presentation*. The Board also asked the staff to prepare a paper to address inconsistencies in the application of the IAS 32 offsetting requirements that were identified as a result of feedback received on the ED.
3. At the July 2011 joint meeting the boards agreed on converged disclosure requirements related to offsetting to assist users in comparing financial statements prepared in accordance with IFRSs and US GAAP.
4. At the At the 28 July 2011 IASB-only supplemental meeting the IASB discussed the effective date and transition requirements for the revised offsetting disclosures. The staff recommended that the revised disclosure requirements should be applied retrospectively and be effective for annual and interim reporting periods beginning on or after 1 January 2013. None of the Board members present objected to either of the staff recommendations. However, no vote was taken and it was determined that this would be considered by the full Board in September.

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

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

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

5. At its 10 August 2011 FASB-only meeting the FASB discussed the guidance for offsetting non-derivative instruments as well as the effective date and transition for the converged disclosures and decided:
 - (a) to retain the existing US GAAP offsetting guidance for non-derivative instruments and
 - (b) that entities would be required to provide the disclosure requirements, for all periods presented, in annual and interim reporting periods beginning on or after 1 January 2013. The disclosure requirements would be applied retrospectively.

While these are the same recommendations that the IASB staff will be making to the IASB in the September Board IASB-only meeting, the FASB noted that it would reconsider its decisions on the effective date and transition if the IASB reached different conclusions in its September meeting.

6. This cover note briefly describes four papers, Agenda Papers 8A-8D, that the staff will discuss in the September meeting to address the remaining points noted above related to the offsetting project.

Agenda Paper 8A - IAS 32 Application Guidance

7. Agenda Paper 8A discusses how the Board might address practice issues, including inconsistencies in applying the IAS 32 offsetting criteria, that came up in the comment letters and outreach performed on the ED.
8. The inconsistencies identified in the application of IAS 32 relate to the:
 - (a) meaning of 'currently has a legally enforceable right of set-off',
 - (b) application of the simultaneous settlement criterion,
 - (c) treatment of collateral /margin and
 - (d) unit of account for application of the offsetting criteria.
9. Agenda Paper 8A contains Appendices A-C, which are reproductions of Agenda Papers 6B-6D from the 22 July IASB-only meeting. Such papers addressed the aforementioned issues in the context of proceeding with the proposals in the ED.

10. This paper also discusses:
 - (a) the location of the offsetting requirements and the recommended amendments to the offsetting application guidance;
 - (b) the location of the converged disclosure requirements and
 - (c) effective date and transition for the recommended application guidance.

Agenda Paper 8B – *Consequential Amendments*

11. Agenda Paper 8B assesses whether the application guidance recommended by the staff in the AP 8A will require consequential amendments to other IFRSs, and if so, what amendments might be appropriate.
12. The following are existing standards that are somewhat linked to the offsetting guidance in IAS 32 and that may be affected by additional application guidance:
 - (a) IAS 12 *Income Taxes* and
 - (b) IAS 19 *Employee Benefits*.

Agenda Paper 8C – *Effective Date and Transition -Disclosures*

13. Agenda Paper 8C addresses the effective date and transition for the converged offsetting disclosures that the boards tentatively decided on at the July meeting¹ (paragraph 4). It is largely based on Agenda Paper 6A from the 28 July 2011 meeting and its recommendations are consistent with those agreed to by the FASB at its 10 August 2011 meeting (paragraph 5).

Agenda Paper 8D – *Offsetting Due Process*

14. Agenda Paper 8D analyses whether the Board has complied with due process steps, as required in the *IASB Due Process Handbook*, for the offsetting project.

¹ See Agenda Papers 3A and 3B/Memos 16A/16B from the 21 July 2011 meeting.