Staff Paper

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Project **Offsetting Financial Assets and Liabilities**

Topic **Disclosures –Transition and Effective Date**

Background

1. This paper is largely based from Agenda Paper 6A from the 28 July meeting.

2. At the 22 July IASB-only meeting the Board asked the staff to prepare a paper that would consider whether practice issues in applying the IAS 32 criteria should be addressed and, if so, how. These practice issues are addressed in Agenda Paper 8A for this meeting.

3. The effective date and transition for that application guidance is addressed in that paper. The Board may want to consider whether and how the effective date and transition for the disclosures and the application guidance should be related.

4. The remainder of this paper is identical to Agenda Paper 6A from the 28 July meeting.

Purpose of the paper

5. At the July 2011 joint meeting, the boards tentatively decided to[1]:

   (a) Retain the objective for the offsetting disclosures, namely, ‘An entity shall disclose information about rights of set-off and related arrangements (such as collateral arrangements) associated with the entity’s financial assets and financial liabilities to enable users of its financial statements to

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

understand the effect of those rights and arrangements on the entity's financial position',

(b) Modify the scope of the disclosure requirements such that they apply only to instruments under an enforceable master netting agreement or similar arrangement (eg derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending arrangements), and

(c) Clarify that an entity need not provide the required disclosures if the entity 'has no qualifying assets or liabilities that are subject to a right of set-off (other than collateral agreements) at the reporting date'.

6. The boards also tentatively decided to require entities to disclose the following:

   (a) the gross amounts of financial assets and financial liabilities,

   (b) the amounts of financial assets and financial liabilities offset in the statement of financial position,

   (c) the net amount after taking in account (a) and (b), (which should be the same as the amounts reported in the statement of financial position),

   (d) the effect of rights of set-off that are only enforceable and exercisable in bankruptcy, default, or insolvency of either party not taken into account in arriving at the amounts presented in the statement of financial position (including collateral) and

   (e) the net exposure after taking into account the effect of items (b) and (d).

7. In this paper the staff provides an analysis and recommendation on transition requirements and effective date for the revised disclosure requirements described in paragraphs 1 and 2.

8. In paragraph 11 the staff recommends that retrospective application of the revised disclosure requirements should be required. In paragraph 18 the staff recommends that the revised disclosure requirements should be effective for annual and interim reporting periods beginning on or after 1 January 2013.

Effective date and transition

9. The ED proposed the following effective date and transition requirements for the proposed offsetting criteria:

> **A1 An entity shall apply this [draft IFRS] / [guidance] for annual and interim periods beginning on or after [date to be inserted after exposure]. The [draft IFRS] / [guidance] shall be applied retrospectively for all comparative periods presented.**

Transition

10. The majority of respondents (see IASB Agenda Paper 5 / FASB Memo 13A (May 2011) agreed with the retrospective application of the requirements for all comparative periods presented for the statement of financial position. They supported the boards' view that retrospective application enhances consistency and comparability. However, many were concerned that the level of detail required in the disclosures would be difficult to provide as it is not currently captured by the systems today.

11. The boards noted that retrospective transition would maximise consistency of financial information between periods, and would facilitate analysis and understanding of comparative accounting data.

12. In June 2011 the boards decided to work on converging disclosure requirements to assist users in comparing financial statements prepared in accordance with IFRSs and US GAAP. Retrospective application is therefore crucial to providing comparable converged disclosure information.

13. Based on feedback received on the proposed disclosures in the ED and the boards' decision in June 2011 to focus on converged disclosures, the staff recommended disclosures with a reduced scope and less granular information than originally proposed in the ED. The boards' tentative decisions for the revised disclosure requirements are described in paragraphs 1 and 2.

14. As a result of the boards' tentative decisions, the staff believes that retrospective application for the proposed disclosures would no longer be as burdensome for preparers to apply especially as the information should be readily available to preparers based on their systems today.

Staff recommendation

15. The staff recommends that the Board require retrospective application of the revised disclosure requirements.

Question 1: Transition
Does the Board agree with the staff recommendation in paragraph 11, namely, to require retrospective application of the revised disclosure requirements? If not, why not? What would you propose instead?

Effective date

16. The ED did not propose an effective date. In the ED the boards asked respondents for information about the time and effort that would be involved in implementing the proposed requirements. The boards indicated that they would use such feedback, as well as the responses in their Request for Views, *Effective Dates and Transition Methods*, and any other planned accounting and reporting standards, to determine an appropriate effective date.

17. As noted in IASB Agenda Paper 5 / FASB Memo 13A (May 2011), respondents agreed that the boards take into consideration the Request for Views when determining the effective date of this project.

18. Some also suggested that the offsetting proposals should have the same effective date as the other components of the IASB's financial instruments project: IFRS 9 *Financial Instruments*. Even though classification and measurement of some instruments might change as a result of implementation of IFRS 9, the staff does not believe it would change the offsetting analysis. If an earlier date were adopted, they argued that application be restricted only to the accounting period being presented [rather than providing comparative information] due to the potential burden of applying the proposed offsetting requirements.

19. Others were concerned that the timing of the effective date should allow regulators time to modify their rules based on the changes in the proposed offsetting requirements.

20. The staff notes that the original offsetting project was a result of requests from users to converge the offsetting requirements between US GAAP and IFRSs to increase comparability. In order for users to benefit from the increased comparability, now in the proposed disclosures, the converged disclosures should be effective as early as possible. Aligning with the effective date of other financial instruments projects could result in substantially postponing the effective date of the converged disclosures which would delay the benefit of convergence for users.

21. In addition, the staff is recommending disclosures that are less complex and have a narrower scope than those proposed in the ED. The staff therefore believes that an early effective date would no longer be a substantial burden to preparers. The effective date should be as early as possible so that users can benefit from the additional information and increased comparability sooner rather than later.

Staff recommendation

22. The staff recommends that the revised disclosure requirements should be effective for annual and interim reporting periods beginning on or after 1 January 2013. This date will provide entities with time to compile the disclosure information while providing users with comparable information in a timely manner.

Question 2: Effective date
Does the Board agree with the staff recommendation in paragraph 18, namely, that the revised disclosure requirements be effective for annual and interim reporting periods beginning on or after 1 January 2013? If not, why not? What effective date would the Board prefer?