11 April 2011

Sir David Tweedie
International Accounting Standards Board
30 Canon Street
London EC4M 6XH
United Kingdom

Submission via IFRS Foundation website

Dear Sir David

Comments on Exposure Draft ED/2011/1 Offsetting Financial Assets and Financial Liabilities

Thank you for the opportunity to comment on the IASB Exposure Draft *Offsetting Financial Assets and Financial Liabilities* (the ED). CPA Australia, the Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (NIA), (the Joint Accounting Bodies) have considered the ED and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Overall the Joint Accounting Bodies are supportive of the proposals in the ED and are pleased to see both boards working together to achieve convergence on this issue. Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

Alex Malley
Chief Executive Officer
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Graham Meyer
Chief Executive Officer
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Appendix – Questions for specific comment

Question 1
The proposals would require an entity to offset a recognised financial asset and a recognised financial liability when the entity has an unconditional and legally enforceable right to set off the financial asset and financial liability and intends either:
a) to settle the financial asset and financial liability on a net basis or
b) to realise the financial asset and settle the financial liability simultaneously.
Do you agree with this proposed requirement? If not, why? What criteria would you propose instead, and why?

We agree with this proposal however we note that the way in which the word 'unconditional' is applied and interpreted in the ED appears inconsistent with the way it is used in paragraph 69(d) of IAS 1 *Presentation of Financial Statements* in relation to the classification of a liability as current. If it were used in IAS 1 based on the way it is applied and interpreted in the ED, then potentially all liabilities would be classified as current because an entity would rarely be able to demonstrate that it had an 'unconditional right to defer settlement'. Therefore, we would like further clarification about the intended use of the word 'unconditional' and how this impacts the way it is used in IAS 1.

Question 2
It is proposed that financial assets and financial liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of set-off. The proposals specify that an unconditional and legally enforceable right of set-off is enforceable in all circumstances (ie it is enforceable in the normal course of business and on the default, insolvency or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?

We agree with the proposal, subject to our comments in question 1 about the use of the word 'unconditional' and the impact on its interpretation in IAS 1.

Question 3
The proposals would require offsetting for both bilateral and multilateral set-off arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements? If not, why? What would you propose instead and why? What are some of the common situations in which a multilateral right of set-off may be present?

We agree that the offsetting criteria should be applied to both types of arrangements for the reasons stated in BC61.

Question 4
Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements, and why?

We do not agree with the proposed disclosure requirements in paragraphs 12(d), 12(f), 12(g), 13 and 14 because we consider it unnecessary to disclose such information as the costs to do so outweigh the benefits. We also consider that the information about collateral is a duplication of that which is required by IFRS 7 *Financial Instruments: Disclosures*. We would therefore like to see these disclosures removed from the final standard.

Question 5

a) **Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?**
b) **Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.**

We agree with the proposed transition requirements.