Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Brussels, 27 April 2011

Dear Sir/Madam,

Dexia is a European bank, with about 35,200 members of staff and core shareholders' equity of EUR 19.2 billion as at 31 December 2010. The Dexia Group focuses on Retail and Commercial Banking in Europe, mainly Belgium, Luxembourg and Turkey and on Public and Wholesale Banking, providing local public finance operators with comprehensive banking and financial solutions. Asset Management and Services provides asset management, investor and insurance services, in particular to the clients of the other two business lines. The different business lines interact constantly in order to serve clients better and to support the Group's commercial activity.

We welcome the opportunity to comment on the IASB's Exposure Draft ED/2011/1.

In general, Dexia supports the IASB's and FASB's initiatives to develop a common standard on offsetting financial assets and liabilities. However, we believe that, when compared to IAS 32, changes in the wording of the standard, leads to a more narrow range of circumstances under which offsetting is allowed.

We are surprised to see that, in contrast with other recently published IFRSs and exposure drafts, the link with internal risk management is not upheld under this exposure draft. Indeed, Dexia believes that the risk reducing character of offsetting should form the basis for the new accounting standard if that is the way how management is informed. In IAS 32 and in Fair Value Measurement, the IASB refers explicitly to that risk reducing character. We believe that the application of that approach provides relevant information to users.

Dexia believes that the exposure draft should allow a clear distinction between positions passing through a central counterparty or clearing organisation -for which offsetting should be reconfirmed- and other positions not passing through a central counterparty. This way, users could be informed optimally about an institution's use of the regulatory architecture to reduce its exposures. In contrast, following the Boards' approach, no information is provided about an institution's use of a central counterparty or clearing organisation. In our view, this essential piece of information for users should be presented in the financial statements in an offsetting position.

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While the Boards are of the opinion that offsetting is conceptually different from derecognition, we feel it is highly counterintuitive that the conditions for derecognition are less restrictive than the ones for offsetting. Derecognition of a financial asset is possible when an entity has transferred substantially all risk and rewards of ownership, but on the contrary, in order to offset such an asset, the entity needs to possess an unconditional and legally enforceable right to set off. In our view, the requirements for offsetting are unbalanced compared to the ones for derecognition. Consequently, we believe that an entity which has currently a legally enforceable right to set off a financial asset and financial liability still respects the offsetting criteria.

We do agree with an appropriate level of disclosures. The Boards should strive to obtain consistency in content and detail of information, reduce the reporting burden for preparers and avoid an overkill of information for users. Therefore, we believe that the disclosure requirements proposed in this exposure draft should be merged with the ones required under IFRS 7 and IAS 1.

As the project on 'Offsetting' has as a main goal to eliminate the differences in this field between IFRS and USGAAP, we are of the opinion that the first time application of the Standard should be aligned with the first time application of Basel 3, namely 1st January 2013.

The application of the Standard will align the offsetting possibilities across the Atlantic and subsequently also align the calculation of the leverage ratio. While we know that the prudential user requirements are, in the opinion of the Boards, different from the objectives of financial reporting, we welcome any measure which could align both practices.

For the same reason, we advocate a prospective application of the final Standard as from 1st January 2013. A retrospective application may prove too burdensome and will in our view lead to confusion by users of the financial statements. For users interested in the leverage of the balance sheet and comparing institutions on both sides of the ocean, the differences in regulatory frameworks across the ocean before 2013 will render a faithful interpretation of the new offsetting rules very difficult.

If you wish to discuss our comments further, please do not hesitate to contact Nico Deprez, Head of Accounting Policy Department of Dexia SA.

Yours sincerely,

Thierry Nederlandt
Head of Accounting & Consolidation
Dexia S.A

Philippe Rucheton
Chief Financial Officer
Dexia S.A.

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?

1. Dexia supports IASB's and FASB's initiatives to develop a common standard on offsetting financial assets and financial liabilities. We believe that a level playing field would not only increase comparability between financial statements but will also reduce competitive disadvantages for the European banking industry compared to those reporting in compliance with US GAAP. Under current accounting framework, the US GAAP accounting principles permit netting in a wider range of circumstances which has a positive impact for the US entities with regard to their leverage ratio in the prudential reporting.

2. We support the Board's decision to use the existing guidance for offsetting financial assets and financial liabilities in IAS 32 as a basis for converged requirements. Unfortunately, some changes in wording result in accounting requirements which leads to a more narrow range of circumstances under which offsetting is allowed. Therefore, Dexia does not agree with the proposal as described in the exposure draft.

3. While the Boards are of the opinion that offsetting is conceptually different from derecognition, we feel it is highly counterintuitive that the conditions for derecognition are less restrictive than the ones for offsetting. Derecognition of a financial asset is possible when an entity has transferred substantially all risk and rewards of ownership, but on the contrary, in order to offset such an asset, the entity needs to possess an unconditional and legally enforceable right to set off. In our view, the requirements for offsetting are unbalanced compared to the ones for derecognition. Consequently, we believe that an entity which has currently a legally enforceable right to set off a financial asset and financial liability still respects the offsetting criteria

4. Narrowing the scope is explained by the following:

    a. IAS 32 paragraph 42 (a) refers to a *current* legally enforceable right to set off while in ED paragraph 6 the IASB refers to an *unconditional* and legally enforceable right. We believe that an entity which has currently a legally enforceable right to set off a financial asset and financial liability still respects the two criteria as described in ED BC 9 in which the Board explains under which circumstances a offsetting presentation is relevant: (a) an entity has a right to, or an obligation for only the net amount and (b) offsetting reflects the expected future cash flows.

b. The wording regarding clearing houses. In IAS 32 paragraph 48 it is stated: 'Simultaneous settlement of two financial instruments may occur through, for example the operation of a clearing house in an organised financial market or a fact-to-face exchange. *In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk.* In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability...' In ED C12 the IASB still refers to clearing houses but the presumption that this leads to a single net amount has disappeared.

c. The ED does not allow offsetting the cash collateral paid and the fair value of the derivative concluded via a central counterparty clearing house. Consequently the ED requires a separate presentation. From a business approach cash collateral reduces credit risk. Secondly, requiring a separate presentation does not recognize that there will be a net payment whereby the fair value under the derivative is netted with cash collateral.

5. We strongly disagree with the proposal made in the ED. We believe that with this proposal the Board deviates from the business approach which has been introduced by many recently published standards or exposure drafts. A balance sheet presentation based on a reduction in credit/liquidity risk provides useful information to the users of the financial statements and would be in line with the way management monitors the risks attached to the business. Such an approach makes sense and could be demonstrated by:

a. IAS 32 paragraph 48 where the IASB refers to credit or liquidity risk exposure (see above);

b. ED Fair Value Measurement paragraph 48 : '...If an entity manages that group of financial assets and financial liabilities on the basis of it net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (an asset) for a particular risk exposure or to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current conditions.'

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?

6. As said in our answer to question 1, we believe that the modification in wording leads to a more narrow application of offsetting compared to the current principles laid down by IAS 32. We believe that an approach based on a reduction of credit/liquidity risk via a currently legally enforceable right to offset financial assets and financial liabilities would be a better way forward. The advantages are the following:

    a. Business approach should form the basis of the accounting principles regarding offsetting. This approach also served as starting point in many recently published IFRSs and exposure drafts.

    b. Offsetting based on the credit/liquidity risk reducing character would result in an increased comparability between financial statements. Under the current proposal it will be the local legislation that determines the way how financial assets and financial liabilities will be presented. In other words, a similar contract can be accounted differently simply because legislation in two countries differs.

    c. It is difficult to have an unconditional right as in common law the legal system is largely determined by case law instead of formal legislation. Notwithstanding the use of precedents, case law can be unpredictable because100% similar cases are not widespread.

    d. It would be in line with prudential reporting.

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?

7. We do not see any reason why a different approach should be introduced for bilateral and multilateral offsetting arrangements as long as the underlying principles are right.

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?

8. We recognise that appropriate disclosures regarding offsetting provide useful information. But as Dexia believes that offsetting should be allowed when there is a reduction in credit or liquidity risk if certain conditions are met, the way the information is disclosed in the financial statements should be differently as well compared to the ones proposed in this exposure draft. A reconciliation between the net presentation in the balance sheet and the underlying gross position should be a given.

9. In order to obtain consistency in content and detail in the information disclosed, as well as to reduce reporting burden for preparers and to avoid overkill on information for users, the IASB should merge the disclosure requirements in IFRS 7, IAS 1 and this exposure draft.

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.

10. As the project on 'Offsetting' has as a main goal to eliminate the differences in this field between IFRS and USGAAP, we are of the opinion that the first time application of the Standard should be aligned with the first time application of Basel 3, namely 1st January 2013.

11. The application of the Standard will align the offsetting possibilities across the Atlantic and subsequently also align the calculation of the leverage ratio. While we know that the prudential user requirements are, in the opinion of the Boards, different from the objectives of financial reporting, we welcome any measure which could align both practices.

12. For the same reason, we advocate a prospective application of the final Standard as from 1st January 2013. A retrospective application may prove too burdensome and will in our view lead to confusion by users of accounts. For users interested in the leverage of the balance sheet and comparing institutions on both sides of the ocean, the differences in regulatory frameworks across the ocean before 2013 will render a faithful interpretation of the new offsetting rules very difficult.