

International Accounting Standards Board
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Durchwahl

Our ref. Ext. Date

GS Geyer / BI 18 Geyer@Bankenverband.at Vienna, 2011-04-27

Ort, Datum

Subject: 4020 / Comment Letter of the Austrian Bankers' Association regarding the Exposure Draft: Offsetting Financial Assets and Financial Liabilities

Dear Sir or Madam,

Unser Zeichen

the Austrian Bankers' Association, representing the Austrian commercial banks and private limited banking corporations, thanks the IASB for the opportunity to comment on the "Exposure Draft: Offsetting Financial Assets and Financial Liabilities (ED/2011/1)". Please find our comments as follows:

Key Points

- The Austrian Bankers' Association supports the proposed accounting requirements regarding the principles for offsetting financial assets and financial liabilities
- We express doubt about the usefulness to users of financial reports
 of the massive increase in disclosure requirements concerning
 unused rights to set off and rights to set off which do not qualify for
 offsetting according to IFRS (Question 4)
- We stress the importance of a single adoption date for IFRS 9 and the significance of a realistic time frame for preparation and adoption (Question 5)

General remarks

We welcome the proposed accounting requirements which are quite similar to the current IAS 39 rules and encourage the IASB to stick to principle based rules whenever possible. However, many disclosures proposed in the ED mainly concern risk reporting under IFRS 7, and we think that disclosures regarding risk reporting should be defined together and be presented in one place in the

A-1010 WIEN, BÖRSEGASSE 11 TELEFON: +43 (1) 535 17 71-0 TELEFAX: +43 (0) 720 010 238-38 E-MAIL: BV@BANKENVERBAND.AT DVR-NUMMER: 0497339 ZVR-ZAHL: 882 690 182 GERICHTSSTAND WIEN financial statements. Disclosures should be aligned with risk reporting and risk reporting should not be defined in a fragmented way throughout IFRS 7.

We think that the proposals in the ED should be seen in context with the existing disclosure requirements in IFRS7 and take into account the proposed disclosures in other exposure drafts on accounting for financial instruments. In this context, we see that the disclosure requirements proposed for offsetting are much more comprehensive in relation to disclosure requirements for other topics related to financial instruments. The IASB should therefore ensure that the level of guidance included in the standard remains consistent and balanced across topics.

Question 1—Offsetting criteria: unconditional right and intention to settle net or simultaneously

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 and support the proposal to establish a principle for offsetting financial assets and financial liabilities based on the existing IAS32 requirements.

Question 2—Unconditional right of set-off must be enforceable in all circumstances

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 (i.e. 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 that the right to set off should be unconditional and legally enforceable.

Question 3—Multilateral set-off arrangements

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 with the proposal to keep the offsetting guidance unchanged and require offsetting for both bilateral and multilateral arrangements.

Question 4—Disclosures

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?

The current proposal includes a massive increase in disclosures required for assets and liabilities that include rights to set off that do not qualify for offsetting according to IFRS. We believe that disclosure requirements relating to transactions that have been set off in the statement of financial position will be useful for users and will enable users to see the link between the gross and the net amounts and the relationship between financial assets and financial liabilities.

In addition, the current proposal includes disclosure requirements for financial transactions that have not been set off in the statement of financial position because the offsetting requirements according to IFRS have not been met. The ED would require separate disclosure for:

- financial assets/liabilities that the entity has an unconditional right to set off but that the entity does not intend to settle net or simultaneously.
- financial assets/liabilities that the entity has a conditional right to set off, separately by each type of conditional right.

In addition, a fictitious balance sheet amount including financial assets/liabilities that have actually been netted in the statement of financial position and financial assets/liabilities that may not be netted in the statement of financial position should be presented. In our view, there is little additional value in disclosing how reports could be affected by transactions that do not qualify for offsetting.

Such information would inflate disclosures; in case significant risks are related to these transactions, these risks would be disclosed in the risk report according to IFRS 7.33.

Furthermore, the ED requires presentation of collateral obtained or pledged and presentation of a net amount after actual netting, fictitious netting and deduction of collateral.

According to the illustrative examples, the newly required information shall be presented in one table. We doubt that this information will add much value to users as this table includes an overload of details that will not be used by the majority of users.

The ED would expand significantly the disclosure requirements in respect of one specific aspect of financial instruments, and this level of detail seems disproportionate compared to the disclosures required in other areas. For example, information on collateral is already required by current IFRS 7 and has to be presented in appropriate detail. Additional disclosure requirements for offsetting would duplicate information requirements and increase the operational burden for preparers of financial statements. Therefore, the proposed disclosures do not satisfy the cost/benefit criteria as they show limited additional added value at a high cost for preparers.

Question 5—Effective date and transition

Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?

Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.

We think that IFRS 9 should have a single adoption date in order to maintain comparability and to enable preparers to develop the systems and models necessary to comply with the new requirements. We suggest a single adoption date for all standards dealing with financial services activities that should be January 2015 with no restatement of the previous years.

Implementation of the systems necessary to collect the required data will need at least 24 months.

Yours sincerely,

Maria Geyer Secretary General