LARSEN & TOUBRO LIMITED

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Ref.: CA/APR 11/ED/IASB/2011/1

April 25, 2011

The International Accounting Standards Board,
1st Floor, 30 Cannon Street,
London EC4M 6XH, United Kingdom.

Dear Sirs,

Sub: Our Comments on Exposure draft on Offsetting Financial Assets and Financial Liabilities (ED/2011/1)

With reference to the above, we thank you for giving us an opportunity to share our views. Our response to specific questions set out in the document containing the exposure draft is enclosed vide **Annexure A.**

Thanking you,

Yours faithfully,

for **LARSEN & TOUBRO LIMITED**

Vaishali P. Koparkar
Joint General Manager
Corporate Accounts

Encl: Annexure A

Annexure A

Comments on Exposure draft on Offsetting Financial Assets and Financial Liabilities:

No.	Questions	Responses
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 that the existence of the unconditional and legally enforceable right of set-off, by itself, is not a sufficient basis for offsetting because the amount and timing of an entity's future cash flows may not be affected and providing information on a net basis would not assist users in assessing future cash flows. Accordingly, **we agree** with the proposed requirement. However, we do not find this any different from para 42 of IAS 32.

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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 (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 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. Even at present, it is implied that para 42 of IAS 32 requires *current legally enforceable right* as it uses the wording *"has a legally enforceable right".* Hence, the proposed requirement, in our view, is a reiteration of the existing wordings of IAS 32 and does not change the presenting reporting requirements. Needless to all, the enforceability should be assessed as on the period end date.
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?	Traditionally, offsetting is allowed for arrangements between two parties. Accordingly, **we agree** with the proposals so far as it requires offsetting for bilateral set-off arrangements that meets the offsetting criteria. Given the Indian scenario, the possibility of a multilateral set-off arrangement appears to be a remote possibility in the ordinary / usual circumstances and hence we abstain from commenting on the same.
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 proposed disclosure requirements in paragraphs 11–15 calls for improved information about financial assets and financial liabilities subject to rights of set-off, and related arrangements (such as collateral agreements), and the effect of those rights and arrangements on an entity's financial position. Accordingly, **we agree** with the proposed disclosure requirements.

		However, the arrangement of disclosure requirements needs to be done in a structured manner to enable the preparers to co-relate the line items with the information presented in the notes to accounts. We recommend the following changes in the order of disclosing such requirements: To meet the requirements in paragraph 11, an entity shall disclose, as the minimum, the following information separately for financial assets and financial liabilities recognised at the end of the reporting period by class of financial instruments: (a) the gross amounts (before taking into account amounts offset in the statement of financial position and portfolio-level adjustments for the credit risk of each of the counterparties or the counterparties' net exposure to the credit risk of the entity). (b) showing separately, (i) the amounts offset in accordance with the criteria in paragraph 6 to determine the net amounts presented in the statement of financial position; (ii) the portfolio-level adjustments made in the fair value measurement to reflect the effect of the entity's net exposure to the credit risk of counterparties or the counterparties' net exposure to the credit risk of the entity; and (iii) the net amount presented in the statement of financial position. ~~(c) the amounts of financial assets and financial liabilities that the entity has an unconditional and legally enforceable right to set off but that the entity does not intend to settle net or simultaneously.~~ ~~(d) the amount of financial assets and financial liabilities that the entity has a conditional right to set off, separately by each type of conditional right.~~ ~~(e) the net amount of financial assets and financial liabilities after taking into account the effect of the~~

		~~items in (a) - (d).~~ (f) for cash or other financial instrument collateral obtained or pledged in respect of the entity's financial assets and financial liabilities: (i) the amount of cash collateral (excluding the amount of cash collateral in excess of the amount in [(b)(iii)], and (ii) the fair value of other financial instruments (excluding the portion of the fair value of such collateral that is in excess of the amount in [(b)(iii)]. (g) the net amount of financial assets and financial liabilities (ie the difference) after taking into account the effect of the items in ~~(e) and~~ (f). The information required by this paragraph shall be presented in a tabular format, unless another format is more appropriate. We propose deletion of para (c), (d) and (e) above as no offsetting has been done in the financial statements. Gathering information and reporting for items which do not qualify for offsetting will be an onerous job without any related benefit.
5.	**Effective date and transition** (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.	(a) The proposed transition requirements in Appendix A aids in maximising consistency and comparability of financial information between the periods presented and hence **we agree** with the same. (b) For an organisation of our nature and size, the implementation of the proposed requirement from the **beginning of the earliest comparative period** in a complete set of financial statements would require at least three months. However, if the disclosure requirements of para 11(c) and (d) are deleted, the exercise can be completed in one month.