



Sir David Tweedie  
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Dear Sir David

**Re.: Exposure Draft 2011/1 “Offsetting Financial Assets and Financial Liabilities”**

We appreciate the IASB and the FASB developing a joint proposal to improve and converge their respective requirements for offsetting financial assets and financial liabilities in order to provide a “level playing field” for financial institutions and other entities. Current differences between the offsetting requirements in IFRS and US GAAP account for the single largest quantitative difference in amounts presented in entities’ statements of financial position, which decreases the comparability of financial statements.

In general, we agree with the boards’ proposals that are, more or less, based on the provisions of current IAS 32. However, we do have concerns in relation to the following aspects of the exposure draft:

- According to paragraph 10(f) and paragraph C11, realisation of a financial asset and settlement of a financial liability are “simultaneous” only if the settlements are executed “at the same moment”. Thus, if settlements take place over a period (even though during this period there is no potential for any change in the value of the financial asset and financial liability, and the period between settlements of the instruments is brief), it is not simultaneous settlement. In our view, this requirement is too restrictive and not operational. Repurchase and reverse repurchase agreements that are

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settled *on the same day* through clearinghouses and centralised counterparties should be presented as net amounts in the statement of financial position.

- The proposed requirements establish a sound principle for offsetting that ensures that a financial asset and a financial liability are offset when:
  - on the basis of the rights and obligations, the entity has, in effect, a right to or obligation for only the net amount, and
  - the amount, resulting from offsetting, reflects an entity's expected future cash flows from settling two or more separate financial instruments.

We share the boards' view that offsetting (i.e. providing net information) is the appropriate accounting treatment in such cases. However, we wonder why the exposure draft requires additional gross information to be disclosed pursuant to paragraph 12(a) and (b)(i). In our view, in these circumstances this gross information is not necessary for analysing financial statements and would add to an information overload.

- In practice, there might be problems regarding the gross presentation of OTC derivatives when entities use a general overall allowance to reflect the credit risk of the counterparty in determining the fair value of the assets, e.g. by applying a fixed percentage. If an entity has both financial assets and financial liabilities, pursuant to the ISDA Master Agreement the "Counterparty Valuation Adjustment" has to be calculated on the net basis. In this scenario, it is not clear how the credit quality of the assets would be reflected on a gross basis, given the fact that applying the same percentage to the net assets and to the gross assets necessarily results in different valuation adjustments.

In addition, the final standard should clarify how to allocate a general overall "Counterparty Valuation Adjustment" (that has been calculated on the net basis) to the individual assets for disclosure purposes on a gross basis, e.g. according to paragraph 8 and paragraphs 25 et seqq. of IFRS 7.

- Paragraph B2 of the exposure draft sets out that the disclosures required by paragraphs 11–15 will be added to IFRS 7. In this context, the Board should avoid undue duplications between the requirements in paragraphs 11–15 of the exposure draft and current provisions of IFRS 7, e.g. in paragraph 14(a) and paragraph 36(b).

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- Finally, paragraph 15 of the exposure draft states that an entity need not provide the information required by paragraphs 11–14 if the entity has no financial assets and financial liabilities at the reporting date that are subject to a right of set-off and the entity has neither obtained nor pledged cash or other financial instruments as collateral in respect of recognised financial assets and recognised financial liabilities. We believe that paragraph 15 is superfluous because it only reflects a general principle.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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Accounting and Auditing

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