

中 国 会 计 准 则 委 员 会
China Accounting Standards Committee

April 27, 2011

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

Dear Sir David Tweedie,

Re: Exposure Draft ED/2011/1 Offsetting Financial Assets and Financial Liabilities

Thank you for offering the Chinese Ministry of Finance and China Accounting Standards Committee an opportunity to comment on the IASB Exposure Draft ED/2011/1 Offsetting Financial Assets and Financial Liabilities (the ED).

We appreciate IASB's efforts to achieve international convergence on the presentation requirements for offsetting of financial assets and financial liabilities. The ED retains the existing requirements in IAS 32 Financial Instruments: Presentation for offsetting financial assets and financial liabilities on the face of the statement of financial position, and the related proposals are more strict. So we agree with the IASB's proposals in general. However, the disclosure requirements proposed in ED are too complicated. We suggest the Board to make amendments and simplify some disclosure requirements properly, taking into account the cost-effectiveness and integration with current disclosure requirements in IFRS 7 as a whole.

Please refer to the attachment for our comments on specific questions.

Sincerely yours,



Yang Min

Director-General
Accounting Regulatory Department of Ministry of Finance of P.R.C
Member
China Accounting Standards Committee

Appendix:

Comments on Exposure Draft ED/2011/1

Offsetting Financial Assets and Financial Liabilities

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 recognized 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?

Agree. The offsetting criteria proposed in ED is basically consistent with the existing IAS 32 *Financial Instruments: Presentation* requirements for offsetting financial assets and financial liabilities on the face of the balance sheet. In addition, the proposed criteria conform to the principle in IAS 1 *Presentation of Financial Statements*.

However, improvements are still needed in the following aspects:

a. The ED replaced the word “**currently**” used in IAS32 by “**unconditional**”, in this case we suggest the Board to further clarify its intention in such modification and reasonably estimate its impact, in order to ensure effective implementation of the criteria by entities.

b. According to the criteria proposed in the ED, the offsetting criteria are met when the entity **intends** “to realize the financial asset and settle the financial liability **simultaneously**”, but the ED C11 interpret “**simultaneously**” as “**the same moment**”, which means the financial asset and financial liability are required to be settled at the same moment. However, such requirement may cause questions in practice: if two parties did not finish their settlements “at the same time” due to force majeure or the difference between the time needed for each Settlement Organization to transfer, though both parties “intended” to be simultaneously, with the time gap between acquisition of assets and settlement of liabilities is very short (like half or several hour), does such case meet the requirements of “at the same time”? Therefore, we recommend the Board to give a clearer definition of “at the same time” and involve a wider public consultation, by which to enable entities to make right judgments in practice.

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?

Agree. From our point of view, if only unconditional and legally enforceable right of set-off is enforceable in all circumstances, the net-based information that present financial instruments will be reliable and reasonable for users of financial statement.

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?

Agree. Essentially there is no difference between multilateral and bilateral set-off arrangements. There is no reason to exclude the multilateral set-off agreement as long as it meets the offsetting criteria proposed in ED.

However, the complexity of multilateral set-off arrangements will possibly lead to different understanding in practice on deciding whether it meets the requirements of net-based presentation, so we suggest the Board to provide more guidance or examples.

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?

Agree in principle. We believe that the combination of net-based presentation and detailed disclosure, especially with an interpretation of how the information of total amount and net amount of each kind of portfolio of financial instruments is adjusted, can provide valuable information for users. In addition, the proposed disclosure in tabular form is more intuitive, which also can improve comparability of accounting information among entities.

However, compared to other disclosure requirements in IFRS, the disclosure requirements proposed in ED appear to be so cumbersome that they will possibly result in information overload and relatively high disclosure costs. For these reasons, we propose the following suggestion:

- a. The disclosure requirement in paragraph 12 (b) (ii) is not reflected in the examples in application guide. We believe that this requirement is included in the scope of Fair Value program. We suggest that such disclosure requirement should be taken effect when fair value standard is adopted and by doing this the operability will be improved.
- b. We consider paragraphs 12(c), 12(d) to be unnecessary when they do not already meet the offsetting criteria, and would, in general, be overwhelming to users. In addition, financial institutions, especially those in emerging market economies with little historical data, may face many difficulties under such disclosure requirements.
- c. IFRS7 has already provided detailed disclosure requirements on the Secured or Pledged assets mentioned in ED14. In order to avoid repeated requirements, we recommend that the Board effectively integrate the context of IFRS7 and that of ED14.
- d. We suggest the Board to provide further guidance on how the "IFRS 7 - *Financial Instruments: Disclosures*" apply to the financial assets and liabilities of offsetting-basis presentation.

In summary, we suggest the Board to make amendments and simplify some disclosure requirements properly, taking into account the cost-effectiveness and integration with current disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* as a whole.

Question 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?

Agree.

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

According to feedbacks from China, there should be at least 2 years for entities to be prepared to apply the proposals in ED. We suggest the effective date to be January 1, 2015. In addition, in order to ensure a same effective date of all standards on financial instruments, we recommend the Board to change the effective date of IFRS9 into January 1, 2015.