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28 April 2011

IASB (iasb@iasb.org)  
Comment Letters  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Dear Sir David Tweedie,

**Subject: Exposure Draft ED/2011/1 “Offsetting Financial Assets and Financial Liabilities”**

Westpac is one of the four major Australian retail trading banks. At 30 September 2010 we had total assets of A\$618 billion of which loans represented A\$478 billion. Our current market capitalisation is A\$76 billion.

We welcome the opportunity to respond to the Board in relation to Exposure Draft ED/2011/1 on offsetting financial assets and financial liabilities.

We support the proposal for a converged standard between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on offsetting financial assets and financial liabilities on the balance sheet. We believe this will significantly enhance the user’s ability to compare financial statements that are prepared under IFRS and US GAAP. However, our concern is on the extent and usefulness of some of the disclosure requirements in the exposure draft (ED). From a cost/benefit viewpoint some of the disclosures outlined in the ED are of questionable value. We have addressed this in greater detail in our response to Question 4.

**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 with the proposed requirement.

**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 proposed requirement.

**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 that the offsetting criteria should be applied to both bilateral and multilateral set-off 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?

We are concerned with the extent and usefulness of some of the disclosure requirements in the ED. As outlined in other ED's recently issued by the IASB, for example ED/2009/12 "Financial Instruments: Amortised Cost and Impairment:

*"it is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation"*

These requirements, in conjunction with the extensive disclosures proposed as part of the IAS 39 replacement project and the existing IFRS 7 disclosures, will significantly increase the volume of information presented in the financial statements. We feel the sheer quantity of disclosures will confuse many users and significantly reduce the useability of the financial statements. From a cost/benefit viewpoint some of the disclosures outlined in this ED are also of questionable value. The disclosures should reflect how we manage credit risk however some of the proposed disclosure requirements in the ED do not reflect this.

Financial instruments class

We question the value of disclosing paragraphs 12(c), 12(d), 12(e), 12(f) and 12(g) by financial instruments class. As we do not manage this information by financial instruments class, the time and costs involved significantly outweigh the benefits.

Information on conditional rights

From a cost/benefit viewpoint, we question the necessity and usefulness of the requirement in paragraph 12(d) to disclose "separately by each type of conditional right" and paragraph 13 to "provide a description of each type of conditional right" including the "nature of those rights and how management determines each type". As we do not use this information to manage credit risk, the preparation time and costs involved significantly outweigh the benefits.

Portfolio-level adjustments

In light of the volume of information already disclosed in the financial statements, we question the relevance of the requirement to disclose portfolio-level adjustments which relate to the measurement of fair value, in the balance sheet offsetting note disclosure.

**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?

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

(a) We are concerned with the time and cost involved if the proposed disclosure requirements are retained and they are required to be applied retrospectively.

(b) Except for the additional disclosure requirements proposed in the ED and our concerns outlined in our response to Question 4, the existing offsetting requirements under IAS 32 are largely in line with those in the ED. On this basis we do not expect to require a significant amount of time to implement the proposed requirements.

We would like to thank the Board for the opportunity to respond to this ED and trust that these comments will prove useful.

If you have any questions related to our response, please contact Ross Goudie at the above address.

Yours sincerely

Ross Goudie  
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