



International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Technical Director, File Ref 2011-100  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk  
CT 06856-5116

**Grant Thornton International Ltd**  
Grant Thornton House  
22 Melton Street  
London  
NW1 EP

**Grant Thornton LLP**  
175 W Jackson  
20th Floor  
Chicago  
IL 60604

28 April 2011

Sent by e-mail to [director@fasb.org](mailto:director@fasb.org)

**Exposure Draft Offsetting Financial Assets and Financial Liabilities  
(ED/2011/1)**

Grant Thornton International Ltd and its US member firm, Grant Thornton LLP, are pleased to comment on the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) Exposure Draft *Offsetting Financial Assets and Financial Liabilities (Proposed Accounting Standards Update Balance Sheet Topic 210)* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

In summary, our main views are as follows:

- we support the development of a converged approach to offsetting financial assets and liabilities by the IASB and the FASB
- we agree with the proposed offsetting criteria. We note these are consistent with those in IAS 32 *Financial Instruments: Presentation* (IAS 32), subject to a useful clarification that a set-off right must be unconditional
- we are concerned that the additional disclosure proposed on set-off rights and similar arrangements (which apply whether or not presentational offset is achieved) seem disproportionate.

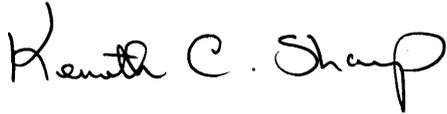
Our responses to the questions in the ED's Invitation to Comment are in the Appendix.

\*\*\*\*\*

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman

(andrew.watchman@uk.gt.com or + 44 207 391 9510) on behalf of Grant Thornton International Ltd or or Mark Scoles, Partner (Mark.Scoles@us.gt.com or + 1 312 602 8780), on behalf of Grant Thornton LLP.

Yours sincerely,



Kenneth C. Sharp  
Global Leader - Assurance Services  
On behalf of Grant Thornton International Ltd



Karin A. French  
Managing Partner of Professional Standards  
On behalf of Grant Thornton LLP

## **Invitation to comment questions**

### **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.

We note that the proposed criteria are consistent with those in IAS 32 *Financial Instruments: Presentation* (IAS 32), subject to the insertion of a specific requirement for the set-off right to be unconditional. We regard this insertion as a useful clarification rather than a substantive amendment.

### **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 (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.

The proposal that a legal right of set-off must be enforceable in all circumstances to achieve accounting offset is consistent with our interpretation of IAS 32's existing requirements.

### **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 in principle. We are not however aware of common situations among our client base in which a multilateral right of set-off may be present.

#### **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 agree with the disclosure objective in paragraph 11 of the ED (that information should be disclosed that enables users to understand the financial effects of rights of set-off and related arrangements).

We question the appropriateness of the more detailed and prescriptive proposals in paragraphs 12 to 14. These paragraphs would require disclosure of information in excess of the current requirements of IFRS 7 on:

- the gross amounts of assets and liabilities that are offset in the statement of financial position in accordance with the proposals;
- the gross amounts of assets and liabilities where set-off rights exist but accounting offset is not achieved (inter alia).

We acknowledge that the Boards' outreach has showed that users support robust disclosures in this area. We agree that the information on set-off and similar arrangements can provide useful insights on entities' credit risk management practices and exposures.

We note however that the ED's proposals on presentation are intended to require offset only when the entity in effect has a single net exposure or right (as explained in BC 17). If in substance an entity has a net exposure or right we question the practical usefulness and relevance of detailed gross information.

We consider that the existing principles and requirements of IFRS 7 should be sufficient to provide insights into how entities use set-off rights and similar arrangements to mitigate credit risk.

#### **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.**

We agree that the amendment should be applied retrospectively.

For an existing IFRS preparer, we think the reasonable length of time necessary to implement the presentation requirements will be relatively short. Nonetheless, assuming the final amendment is issued in 2011, we suggest the effective date should be no sooner than annual periods commencing on or after 1 January 2013. An entity with a calendar year-end that adopts the changes in its 31 December 2013 financial statements would then present comparative information at 31 December 2011 and 2012, the earlier date being after the publication of the final amendment.

We think that the proposed disclosure requirements could increase the necessary implementation time for entities that use set-off and similar arrangements extensively. If the disclosure proposals are retained we suggest the Boards may need to either defer the effective date or provide relief from disclosure of comparative information.