



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

April 27, 2011
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Offsetting Financial Assets and Financial Liabilities

Dear Sir/Madam,

The Comitê de Pronunciamentos Contábeis – CPC (Brazilian Accounting Pronouncements Committee) ¹ welcomes the opportunity to comment on the Offsetting Financial Assets and Financial Liabilities.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies.

Please see our comments and responses to the Invitation to Comment questions in the Appendix.

If you have any questions about our comments, please contact us.

Yours sincerely

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Brazilian Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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Offsetting Financial Assets and Financial Liabilities

Answers to specific 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?

Comment:

We agree with this proposed requirement. Actually, the proposed requirement will have minimum effect in the financial statements in IFRSs because it is very close to the requirement in IAS 32 (paragraphs 42-50), but it tightens up the conditions relating to the offsetting right. The major merit in the proposed requirement is to increase the convergence among entities reporting under IFRSs and US GAAP. Additionally, this proposal ensures that there is no significant loss of information for users compared with gross reporting.

Despite this and to aim to assure that a presentation in net basis would be consistent over time, we suggest including additional requirements:

- (i) An entity shall present the net amount in the statement of its financial position when it has an unconditional and legally enforceable right of set-off, and **intends** either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. Otherwise, when the entity has an unconditional and legally enforceable right of set-off, but it does **not intend** to settle net or simultaneously, the entity's financial assets and financial liabilities are presented separately from each other according to their nature as assets or liabilities. So, the entity's intention (or no intention) to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously shall be consistent over time;
- (ii) When the entity's intention (to settle or not the asset and liability on a net basis or to realise or not the asset and settle the liability simultaneously) has changed, an entity shall disclose information about that, including the reasons why the intention was changed.

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



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event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?

Comment:

We agree with this proposed requirement, in which 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. In other words, an unconditional right of set-off must be enforceable in all circumstances; otherwise, a presentation in net basis could lead to a significant loss of information for users compared with gross reporting.

The IAS 32 requires that a financial asset and a financial liability shall be offset when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts (paragraph 42(a)). Therefore, with the proposed requirement, a offsetting would take place only when an entity has an unconditional and legally enforceable right to set-off a financial asset and a financial liability.

The proposed requirement significantly improves the usefulness of financial information disclosed, especially the relevance, reliability and comparability.

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?

Comment:

We agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements, provided that the offsetting criteria have been fully met. In Brazil, for example, it implies that the applicable legislation must be observed, given that the right of offsetting shall be a legal right (a legally enforceable right).

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?

Comment:

We agree with the proposed disclosure requirements in paragraphs 11–15 and also that the entities should provide information about offsetting rights even if the proposed requirements are not satisfied, that is, the entity has an unconditional and legally enforceable right to set off but the entity does not intend to settle net or realise simultaneously (paragraph 12(c)) or the entity has a conditional right to set off (paragraph 12 (d)).

We support the IASB's preference for tabular format and we understand that the tables included in the paragraph IE1 are just examples and the final format could be set by entity. For example, an entity could present the proposed requirements in paragraph 12 in two tables instead of one. So, the first table should present the information required by paragraphs 12(a) and 12 (b), and the second one should present the remaining information,



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but it should start with the net amount presented in the statement of financial position and finished with the net exposure (as required in paragraph 12(g)).

Additionally, paragraph 12(b) demands that an entity disclose 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). But, paragraph IE1 (Illustrative Examples Guidance), the example assumes the entity has not made portfolio-level adjustments in the fair value measurement of derivatives.

So, we think that the above specific issue wasn't clarified in the ED/2011/1 - Offsetting Financial Assets and Financial Liabilities, or in the ED/2009/5 - Fair Value Measurement, or in the ED/2010/7 - Measurement Uncertainty Analysis.

On the other hand, in the Supplement to ED/2009/12 - Financial Instruments: Amortised Cost and Impairment, "portfolio" is defined as:

A grouping of financial assets with similar characteristics that are managed by a reporting entity on a collective basis. In an open portfolio, assets are added to the portfolio through its life by origination or purchase, and removed through its life by write-offs, transfer to other portfolios, sales and repayment. In a closed portfolio, assets are not added to the portfolio through its life, and are removed by write-offs, transfer to other portfolios, sales and repayment. (ED/2009/12, Appendix A)

Should this concept and the proposed requirements in ED/2009/12 be applied to financial assets at amortised cost that must be offset if according to ED/2011/1? If not, why? If yes, how?

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.

Comment:

We agree with the proposed transition requirements in Appendix A and we believe that the full retrospective application would be more useful to users and that the benefits of the resulting information would outweigh the costs. We'd like to take the opportunity to suggest that this IFRS [Draft] could be applied for annual periods beginning on or after 1 January 2013 and an earlier application be permitted (such as in the IFRS 9).

We think that the proposals would have minimal impact in the statements of financial position prepared in accordance with IFRSs, but not in accordance with US GAAP. Despite that, we think that the effective date suggested above (1 January 2013) gives enough time for suitable implementation.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.