26 April 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Dear Sir David

ED/2011/01 Offsetting Financial Assets
And Financial Liabilities

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Exposure Draft.

The G100 supports the proposal to establish a principle and to base the offsetting requirements on IAS 32 'Financial Instruments: Presentation' which provides relevant and useful information to users of financial statements. However, we are concerned that the extent and detail of the proposed disclosure requirements will impose significant costs on entities without providing decision-useful information to users.

Q1 - Offsetting criteria: Unconditional right and intention to settle net or simultaneously
The proposals would require an entity to offset a recognized 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:
- to settle the financial asset and financial liability on a net basis; or
- to realize 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?

Yes. The development of a principle to be applied in offsetting financial assets and financial liabilities is supported. The G100 believes that the criteria in IAS 32 are appropriate and supports the proposal to use them as the basis of an approach.

However, the meaning of the term 'simultaneously' is not clear from the definition in paragraph 6(b)(ii). The G100 suggests that additional guidance be provided on whether 'simultaneously' means at the exact moment, within a few hours or on the same day.

For example, the settlement of exchange-traded contracts occurs through a clearing house that usually requires settlement at the same moment on the day of settlement.
This contrasts with the timing for settling over-the-counter contracts (whether through a broker or directly between counterparties) is usually communicated between the counterparties as settlement approaches, and because the contractual requirement is for counterparties to each settle their respective liability positions by a certain time (as opposed to same counterparties settling at the same moment) on the day of settlement, it is purely coincidental for settlement to actually occur at the same moment.

Consequently, under these proposals, over-the-counter contracts would not meet the ‘intention to settle simultaneously’ condition unless their contractual terms are modified to specify the moment of settlement. We expect this impact to be extensive.

Q2 – 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?

Yes. The G100 agrees with the proposal that the right of set-off must be unconditional and legally enforceable in all circumstances. This approach will clarify the existing requirements.

However, we do not agree with the rule that assets pledged as collateral or the obligation to return collateral obtained cannot be offset against the associated financial assets and financial liabilities (paragraph 9). If the conditions in paragraphs 6(a) and (b) are met then offsetting should apply. There are situations where contractual arrangements do provide for collateral to be set off against associated assets and liabilities, and that meet the conditions in paragraphs 6(a) and (b).

Q3 – 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?

The G100 agrees that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements when the conditions in paragraphs 6(a) and (b) are met.

Q4 - Disclosures

Do you agree with the proposed disclosure requirements in paras 11-15? If not, why? How would you propose to amend those requirements, and why?

-3-
The G100 believes that the disclosures made should be based on the application of a set of disclosure principles. We are concerned about the extent and detail of the proposed disclosures and that the disclosures are inconsistent with the Board's view of offsetting. If the Board considers offsetting to be appropriate when the conditions in paragraphs 6(a) and (b) are met, then the extent of disclosures of the underlying gross assets and liabilities suggests offsetting is not appropriate.

The G100 considers that the volume of the disclosures will be inconsistent with the significance of the arrangements to the operations of the entity. The G100 believes that the detail and content of the disclosures made are best left to the application of principles by management and that the list of disclosures should be provided as indicative of matters which would be considered in applying the principles.

We note the duplication of the proposed disclosure in paragraph 12(f) in respect of financial assets. This disclosure was amended through the Annual Improvements Project {IFRS 7 para 36(b)} with adoption for annual reporting periods beginning on or after 1 January 2011.

In addition, we consider that the disclosure of grossed up balances would not provide any significant benefits to users and that the proposed disclosures on the conditional right to offset is onerous and it would be more appropriate to require such disclosures to be made in respect of conditional mandatory offsets. It is unclear what value the disclosure of conditional or unconditional rights of set off provides to users when these assets and liabilities do not meet the netting criteria. Amounts for these arrangements are already presented gross in the balance sheet which we believe is the appropriate information as that is how these amounts will be settled. For example, mortgages can have offset accounts with the right of set-off on default. This product is for the convenience of customers and is not integral to how a bank manages its credit risk (which considers the loan to value ratio of the mortgaged property). Providing additional information suggesting that such a feature is part of an entity's credit risk management process has the potential of being confusing to the users of its financial statements.

The G100 considers that the disclosure proposed by paragraph 12(c) to be impractical and question its relevance if the financial asset and financial liability are already separately presented. Further, the disclosure proposed in paragraph 12(d) is of concern, because information systems are not normally designed to track conditional rights by their type, nor by class of financial instrument (as the lead in to paragraph 12 indicates). This type of right can be obtained only by referring to each contract, and the usefulness of the information is questionable since it is not needed for regulatory purposes. Financial institutions generally manage the settlement risk in default or bankruptcy by aggregating all exposures where there is a conditional right with a particular counterparty, rather than by class of financial instrument. The G100 believes that the proposal should be amended to achieve consistency with current risk management approaches of aggregating by counterparty (rather than by class of instrument). Both of the proposed disclosures will require extensive modifications to information systems, which we consider will outweigh any benefits.
Q5 - 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.

The G100 believes that retrospective application of the proposals will be onerous and collection of the information, particularly for the disclosures proposed in paragraphs 12 (c) and (d), would require significant system upgrades in addition to transaction, contract and product reviews.

As such, retrospective application would require a long lead time compared with prospective application. As mentioned in response to Q4, this will require extensive systems development.

Yours sincerely

Group of 100 Inc

[Signature]

Peter Lewis
President