28 April 2011

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David,

Thank you for the opportunity to comment on the Supplement to Exposure Draft 2011/1 Offsetting Financial Assets and Liabilities. Australia and New Zealand Banking Group Limited (ANZ) is listed on the Australian Securities Exchange and remains one of a select group of banks who continue to be AA rated. Our operations are predominately based in Australia, New Zealand and Asia and our most recent annual results reported profits of USD4.5 billion and total assets of USD534 billion.

We are supportive of the joint efforts of the IASB and FASB to reach a consensus on what has been the most significant area of difference when comparing the balance sheets of preparers under IFRS and US GAAP. We are also grateful for the opportunity to discuss the approach to offsetting via the IASB and FASB outreach activities.

While we are generally supportive of the approach to offsetting proposed in the Exposure Draft ('ED'), we do have a number of specific concerns that we would like to highlight. The areas of specific concern are outlined below.

**Disclosure**

We are not supportive of the detailed level of disclosure proposed by the ED. Specifically, the detailed requirements contained with paragraphs 12(c), 12(d) and paragraph 13. We do not believe they will provide useful information to users of financial statements and the collation of such information is likely to be onerous as it will require changes to underlying risk systems to allow reporting on the necessary conditions.

Furthermore, we do not agree with the requirement to split collateral across portfolios of financial assets. It is common practice to determine collateral requirements from customers in relation to its overall exposure, not the level of exposure on an instrument by instrument, or even on a portfolio basis.

Finally, we believe a number of disclosures appear to go beyond the realm of offsetting, and more intuitively should be contained within the requirements of IFRS 7 *Financial Instruments: Disclosures*.

**Cash Collateral Netting on Derivatives**

We are generally supportive of the proposed requirements in respect of the conditions to be satisfied prior to offsetting. Our concern is that this approach requires that cash collateral received under a master netting agreement would be separately disclosed to the derivatives to which it relates. In our view this does not accurately present the true nature of an entities assets and liabilities, and in fact may be potentially misleading to users of financial statements.
Therefore we would propose to require net presentation of derivative financial assets and liabilities on the Statement of Financial Position, and the gross balances can be disclosed in the notes to the Financial Statements.

Detailed comments on the questions raised in the Supplement to the ED are attached to this letter. Should you have any queries on our comments, please contact me at Rob.Goss@anz.com.

Yours sincerely

Rob Goss  
Head of Accounting Policy, Governance and Compliance  
Copy: Chairman, Australian Accounting Standards Board (AASB)
Question 1

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 are generally supportive of the proposed requirements in respect of the conditions to be satisfied prior to offsetting. Our concern is that this approach requires that cash collateral received under a master netting agreement would be separately disclosed to the derivatives to which it relates. In our view this does not accurately present the true nature of an entity’s assets and liabilities, and in fact may be potentially misleading to users of financial statements.

Therefore we would propose to require net presentation of derivative financial assets and liabilities on the Statement of Financial Position, and the gross balances can be disclosed in the notes to the Financial Statements.

Question 2

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?

Subject to our concerns raised in question 1 above specifically relating to derivatives, we are supportive of the proposed conditions in respect of the conditions to be satisfied to achieve offsetting.

Question 3

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 believe the requirements would suit both bilateral and multilateral arrangements.

Question 4

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 not supportive of the detailed level of disclosure proposed by the ED. Specifically, the detailed requirements contained with paragraphs 12(c), 12(d) and paragraph 13. We do not believe they will provide useful information to users of financial statements and the collation of such information is likely to be onerous as it will require changes to underlying risk systems to allow reporting on the necessary conditions.

Furthermore, we do not agree with the requirement to split collateral across portfolios of financial assets. It is common practice to determine collateral requirements from customers in relation to its overall exposure, not the level of exposure on an instrument by instrument, or even on a portfolio basis.
Finally, we believe a number of disclosures appear to go beyond the realm of offsetting, and more intuitively should be contained within the requirements of IFRS 7 Financial Instruments: Disclosures.

**Question 5**

(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 are supportive of the transition requirements i.e. apply the requirement to apply the proposals retrospectively if sufficient time is given to implement the requirements. We believe that in the absence of any further significant incremental additions to the ED it would be reasonable to believe the requirements could be operationalised for an effective date of 1 January 2013.