

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2013-01  
January 2013

### Balance Sheet (Topic 210)

Clarifying the Scope of Disclosures about Offsetting  
Assets and Liabilities

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board  
of the Financial Accounting Foundation

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116



# Accounting Standards Update 2013-01

## Balance Sheet (Topic 210)

## Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

January 2013

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The main objective in developing this Update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Stakeholders have told the Board that because the scope in Update 2011-11 is unclear, diversity in practice may result. Recent feedback from stakeholders is that standard commercial provisions of many contracts would equate to a master netting arrangement. Stakeholders questioned whether it was the Board's intent to require disclosures for such a broad scope, which would significantly increase the cost of compliance. The objective of this Update is to clarify the scope of the offsetting disclosures and address any unintended consequences.

## What Are the Main Provisions?

The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that have derivatives accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also are affected because these amendments make them no longer subject to the disclosure requirements in Update 2011-11.

## How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments clarify the intended scope of the disclosures required by Section 210-20-50. The Board concluded that the clarified scope will reduce significantly the operability concerns expressed by preparers while still providing decision-useful information about certain transactions involving master netting arrangements. The amendments provide a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

## When Will the Amendments Be Effective?

An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The disclosures required by the amendments in Update 2011-11 are the result of a joint project between the FASB and the International Accounting Standards Board (IASB), which was intended to provide comparable information about balance sheet offsetting between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments in this Update clarify that the scope of the disclosures under U.S. GAAP is limited to include derivatives accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 210-20

2. Amend paragraphs 210-20-50-1 through 50-2 and their related heading, with a link to transition paragraph 210-20-65-2, as follows:

### **Balance Sheet—Offsetting**

#### **Disclosure**

##### **> Offsetting of Derivatives, Financial Assets, Repurchase Agreements, and Financial Liabilities Securities Lending Transactions**

**210-20-50-1** The disclosure requirements in paragraphs 210-20-50-2 through 50-5 apply to both of the following:

- a. ~~Subparagraph superseded by Accounting Standards Update 2013-01. Recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45~~
- b. ~~Subparagraph superseded by Accounting Standards Update 2013-01. Recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.~~
- c. Recognized **derivative instruments** accounted for in accordance with Topic 815, including bifurcated embedded derivatives, **{add glossary link to 2<sup>nd</sup> definition}** **repurchase agreements** **{add glossary link to 2<sup>nd</sup> definition}** and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either Section 210-20-45 or Section 815-10-45

- d. Recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

**210-20-50-2** An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial ~~position~~-position for recognized assets and liabilities within the scope of the preceding paragraph. This includes the effect or potential effect of **rights of setoff** associated with an entity's recognized assets and recognized liabilities that are in the scope of the preceding paragraph.

**210-20-50-3** To meet the objective in the preceding paragraph, an entity shall disclose at the end of the reporting period the following quantitative information separately for assets and liabilities that are within the scope of paragraph 210-20-50-1:

- a. The gross amounts of those recognized assets and those recognized liabilities
- b. The amounts offset in accordance with the guidance in Sections 210-20-45 and 815-10-45 to determine the net amounts presented in the statement of financial position
- c. The net amounts presented in the statement of financial position
- d. The amounts subject to an enforceable master netting arrangement or similar agreement not otherwise included in (b):
  1. The amounts related to recognized financial instruments and other derivative instruments that either:
    - i. Management makes an accounting policy election not to offset.
    - ii. Do not meet some or all of the guidance in either Section 210-20-45 or Section 815-10-45.
  2. The amounts related to financial collateral (including cash collateral).
- e. The net amount after deducting the amounts in (d) from the amounts in (c).

**210-20-50-4** The information required by the preceding paragraph shall be presented in a tabular format, separately for assets and liabilities, unless another format is more appropriate. The total amount disclosed in accordance with paragraph 210-20-50-3(d) for an instrument shall not exceed the amount disclosed in accordance with paragraph 210-20-50-3(c) for that instrument.

**210-20-50-5** An entity shall provide a description of the rights of setoff associated with an entity's recognized assets and recognized liabilities subject to an enforceable master netting arrangement or similar agreement disclosed in accordance with paragraph 210-20-50-3(d), including the nature of those rights.

**210-20-50-6** If the information required by paragraphs 210-20-50-1 through 50-5 is disclosed in more than a single note to the financial statements, an entity shall cross-reference between those notes.

3. Supersede paragraphs 210-20-55-2 through 55-5 and their related heading, with a link to transition paragraph 210-20-65-2, as follows:

## **Implementation Guidance and Illustrations**

### **> Implementation Guidance**

#### **>> Scope**

**210-20-55-2** Paragraph superseded by Accounting Standards Update 2013-01. ~~The disclosures in paragraphs 210-20-50-2 through 50-6 are required for all recognized financial instruments and derivative instruments that are subject to offsetting in accordance with either Section 210-20-45 or Section 815-10-45. In addition, derivative instruments and other financial instruments and transactions are within the scope if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.~~

**210-20-55-3** Paragraph superseded by Accounting Standards Update 2013-01. ~~Similar agreements include the following agreements and any related rights to financial collateral:~~

- ~~a. Derivative clearing agreements~~
- ~~b. Global master repurchase agreements~~
- ~~c. Global master securities lending agreements.~~

**210-20-55-4** Paragraph superseded by Accounting Standards Update 2013-01. ~~Similar financial instruments and transactions as referred to in paragraph 210-20-55-2 include the following:~~

- ~~a. Derivatives~~
- ~~b. Sale and repurchase agreements and reverse sale and repurchase agreements~~
- ~~c. Securities borrowing and securities lending agreements.~~

**210-20-55-5** Paragraph superseded by Accounting Standards Update 2013-01. ~~Examples of financial instruments that are not within the scope of the disclosure requirements in paragraphs 210-20-50-2 through 50-6 include the following:~~

- ~~a. Loans and customer deposits at the same institution (unless they are offset in the statement of financial position)~~
- ~~b. Financial instruments that are only subject to a collateral agreement.~~

4. Amend paragraph 210-20-55-7, with a link to transition paragraph 210-20-65-2, as follows:

**> > Disclosure of the Gross Amounts of Recognized Assets and Liabilities**

~~210-20-55-7 The disclosures required by paragraph 210-20-50-3(a) relate solely to recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45, or to recognized financial instruments or derivative instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting guidance, recognized assets and liabilities within the scope of paragraph 210-20-50-1. However, the disclosures required by paragraph 210-20-50-3(a) do not relate to any amounts recognized as a result of collateral agreements that do not meet the offsetting guidance in either Section 210-20-45 or Section 815-10-45. Instead, such amounts should be disclosed in accordance with paragraph 210-20-50-3(d).~~

5. Add paragraph 210-20-55-10A, with a link to transition paragraph 210-20-65-2, as follows:

210-20-55-10A An entity also may elect to include all recognized derivatives accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions in the scope of paragraph 210-20-50-1 to reconcile to the individual line-item amount(s) presented in the statement of financial position. For instruments not subject to an enforceable master netting arrangement or similar agreement, the amounts disclosed in accordance with paragraph 210-20-50-3(a) would equal the amounts disclosed for those instruments in accordance with both paragraph 210-20-50-3(c) and paragraph 210-20-50-3(e).

6. Amend the tables to paragraphs 210-20-55-20 through 55-22, with a link to transition paragraph 210-20-65-2, as follows:

**> > Example 1: Disclosure by Type of Financial Instrument**

**210-20-55-20** In this Example, the reporting entity has entered into transactions subject to an enforceable master netting arrangement or other similar agreement with the following counterparties. The reporting entity has the following recognized financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 210-20-50-1. This Example has the following assumptions.

**[The remainder of this paragraph is not included because it is unchanged.]**

Application of Paragraph 210-20-50-3(a)-(e)

Offsetting of Financial Assets and Derivative Assets

\$ million						
As of December 31, 20XX	(i)	(ii)	(iii) = (i) - (ii)	(iv)		(v) = (iii) - (iv)
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 100	\$ (90)	\$ 10	-	\$ -	\$ 10
Reverse repurchase, securities borrowing, and similar arrangements	90	-	90	(90)	-	-
Other financial instruments	-	-	-	-	-	-
Total	\$ 190	\$ (90)	\$ 100	\$ (90)	\$ -	\$ 10

Offsetting of Financial Liabilities and Derivative Liabilities

\$ million						
As of December 31, 20XX	(i)	(ii)	(iii) = (i) - (ii)	(iv)		(v) = (iii) - (iv)
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivatives	\$ 80	\$ (80)	\$ -	\$ -	\$ -	\$ -
Repurchase, securities lending, and similar arrangements	80	-	80	(80)	-	-
Other financial instruments	-	-	-	-	-	-
Total	\$ 160	\$ (80)	\$ 80	\$ (80)	\$ -	\$ -

>> Example 2: Disclosure by Type of Financial Instrument and Type of Counterparty

**210-20-55-21** The following table illustrates how an entity might provide the quantitative disclosure requirements in paragraph 210-20-50-3(a) through (c) by type of instrument and the information required in paragraph 210-20-50-3(c) through (e) by counterparty.

**Application of Paragraph 210-20-50-3(a)-(c) by Instrument and Paragraph 210-20-50-3(c)-(e) by Counterparty  
Offsetting of Financial Assets and Derivative Assets**

\$ million			
As of December 31, 20XX	(i)	(ii)	(iii) = (i) – (ii)
<b>Description</b>	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statement of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statement of Financial Position</b>
Derivatives	\$ 100	\$ (90)	\$ 10
Reverse repurchase, securities borrowing, and similar arrangements	90	–	90
<del>Other financial instruments</del>	<del>—</del>	<del>—</del>	<del>—</del>
Total	<u>\$ 190</u>	<u>\$ (90)</u>	<u>\$ 100</u>

**Financial Assets, Derivative Assets, and Collateral Held by Counterparty**

\$ million				
As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		<b>Gross Amounts Not Offset in the Statement of Financial Position</b>		
<b>Net Amount of Assets in the Statement of Financial Position</b>	<b>Financial Position</b>	<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	<b>Net Amount</b>
Counterparty A	\$ 10	\$ –	\$ –	\$ 10
Counterparty B	90	(90)	–	–
Other				
Total	<u>\$ 100</u>	<u>\$ (90)</u>	<u>\$ –</u>	<u>\$ 10</u>

**Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty  
Offsetting of Financial Liabilities and Derivative Liabilities**

\$ million			
As of December 31, 20XX	(i)	(ii)	(iii) = (i) – (ii)
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position
<b>Description</b>			
Derivatives	\$ 80	\$ (80)	\$ –
Repurchase, securities lending, and similar arrangements	80	–	80
Other financial instruments	–	–	–
Total	\$ 160	\$ (80)	\$ 80

**Financial Liabilities, Derivative Liabilities, and Collateral Pledged by Counterparty**

\$ million			
As of December 31, 20XX	(iii)	(iv)	(v) = (iii) – (iv)
	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	
		Financial Instruments	Cash Collateral Pledged
			Net Amount
Counterparty A	\$ –	\$ –	\$ –
Counterparty B	80	(80)	–
Other	–	–	–
Total	\$ 80	\$ (80)	\$ –

**>> Example 3: Sophisticated Entity Disclosure by Type of Financial Instrument and Type of Counterparty**

**210-20-55-22** The following table illustrates how a sophisticated entity that engages in significant derivative activity might provide the quantitative disclosure requirements in paragraph 210-20-50-3(a) through (c) by type of instrument and paragraph 210-20-50-3(c) through (e) by type of counterparty. In this Example, the entity further disaggregates the derivative line item into underlying risk as discussed in paragraph 815-10-50-4D, with further disaggregation based on how the derivative is transacted.

**Application of Paragraph 210-20-50-3(a)–(c) by Instrument and Paragraph 210-20-50-3(c)–(e) by Counterparty  
Offsetting of Financial Assets and Derivative Assets**

\$ million			
As of December 31, 20XX	(i)	(ii)	(iii) = (i) – (ii)
<b>Description</b>	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statement of Financial Position</b>	<b>Net Amounts of Assets Presented in the Statement of Financial Position</b>
<b>Derivatives</b>			
Interest rate contracts			
Over the counter	\$XX,XXX	\$XX,XXX	\$XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Foreign exchange contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Equity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Commodity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Credit contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Other contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Total derivatives, subject to a master netting arrangement or similar arrangement	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Total derivatives, not subject to a master netting arrangement or similar arrangement	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Total derivatives	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Reverse repurchase, securities borrowing, and similar arrangements	XX,XXX	XX,XXX	XX,XXX
Other financial instruments	<del>XX,XXX</del>	<del>XX,XXX</del>	<del>XX,XXX</del>
Total	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

**Financial Assets, Derivative Assets, and Collateral Held by Counterparty**

\$ million

As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		<b>Gross Amounts Not Offset in the Statement of Financial Position</b>		
	<b>Net Amount of Assets in the Statement of Financial Position</b>	<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	<b>Net Amount</b>
Counterparty A	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Counterparty B	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Other	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

Application of Paragraph 210-20-50-3(a)-(c) by Instrument and Paragraph 210-20-50-3(c)-(e) by Counterparty

Offsetting of Financial Liabilities and Derivative Liabilities

\$ million			
As of December 31, 20XX			
Description	(i) Gross Amounts of Recognized Liabilities	(ii) Gross Amounts Offset in the Statement of Financial Position	(iii) = (i) - (ii) Net Amounts of Liabilities Presented in the Statement of Financial Position
Derivatives			
Interest rate contracts			
Over the counter	\$XX,XXX	\$XX,XXX	\$XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Foreign exchange contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Equity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Commodity contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Credit contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Other contracts			
Over the counter	XX,XXX	XX,XXX	XX,XXX
Exchange traded	XX,XXX	XX,XXX	XX,XXX
Exchange cleared	XX,XXX	XX,XXX	XX,XXX
Total derivatives, subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives, not subject to a master netting arrangement or similar arrangement	XX,XXX	XX,XXX	XX,XXX
Total derivatives	XX,XXX	XX,XXX	XX,XXX
Reverse repurchase, securities borrowing, and similar arrangements	XX,XXX	XX,XXX	XX,XXX
<del>Other financial instruments</del>	<del>XX,XXX</del>	<del>XX,XXX</del>	<del>XX,XXX</del>
Total	\$XX,XXX	\$XX,XXX	\$XX,XXX

**Financial Liabilities, Derivative Liabilities, and Collateral Held by Counterparty**

\$ million

As of December 31, 20XX	(iii)	(iv)		(v) = (iii) – (iv)
		<u>Gross Amounts Not Offset in the Statement of Financial Position</u>		
	Net Amount of Liabilities in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
Counterparty A	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Counterparty B	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Other	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

7. Amend paragraph 210-20-65-1 as follows:

**> Transition Related to Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities***

**210-20-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*:

- a. The pending content that links to this paragraph, except for paragraphs 210-20-55-2 through 55-5, which are superseded as of the issuance of Accounting Standards Update 2013-01, shall be effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods.
- b. The pending content that links to this paragraph shall be applied retrospectively for any period presented that begins before the date of initial application of the guidance.

8. Add paragraph 210-20-65-2 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities***

**210-20-65-2** The following represents the transition and effective date information related to Accounting Standards Update No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods.
- b. The pending content that links to this paragraph shall be applied retrospectively for any period presented that begins before the date of initial application of the guidance.

9. Amend paragraph 210-20-00-1, by adding the following items to the table, as follows:

**210-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
210-20-50-1	Amended	2013-01	1/31/13
210-20-50-2	Amended	2013-01	1/31/13
210-20-55-2 through 55-5	Superseded	2013-01	1/31/13
210-20-55-7	Amended	2013-01	1/31/13
210-20-55-10A	Added	2013-01	1/31/13
210-20-55-20 through 55-22	Amended	2013-01	1/31/13
210-20-65-1	Amended	2013-01	1/31/13
210-20-65-2	Added	2013-01	1/31/13

## Amendments to Subtopic 815-10

10. Add paragraph 815-10-50-7A, with a link to transition paragraph 210-20-65-2, as follows:

### Derivatives and Hedging—Overall

#### Disclosure

##### > Balance Sheet Offsetting

**815-10-50-7** A reporting entity's accounting policy to offset or not offset in accordance with paragraph 815-10-45-6 shall be disclosed.

**815-10-50-7A** A reporting entity also shall disclose the information required by paragraphs 210-20-50-1 through 50-6 for all recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, which are either:

- a. Offset in accordance with either Section 210-20-45 or Section 815-10-45
- b. Subject to an enforceable master netting arrangement or similar agreement.

11. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

**815-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-10-50-7A	Added	2013-01	1/31/13

## Amendments to Subtopic 860-30

12. Add paragraph 860-30-50-6 and its related heading, with a link to transition paragraph 210-20-65-2, as follows:

### **Transfers and Servicing—Secured Borrowing and Collateral**

#### **Disclosure**

##### **> Disclosures for Repurchase Agreements and Securities Lending Transactions**

**860-30-50-6** A reporting entity also shall disclose the information required by paragraphs 210-20-50-1 through 50-6 for both of the following that are either offset in accordance with Section 210-20-45 or subject to an enforceable master netting arrangement or similar agreement:

- a. Recognized repurchase agreements and reverse sale and repurchase agreements
- b. Recognized securities borrowing and securities lending transactions.

13. Amend paragraph 860-30-00-1, by adding the following item to the table, as follows:

**860-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
860-30-50-6	Added	2013-01	1/31/13

*The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*  
Daryl E. Buck  
Russell G. Golden  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update clarify the scope of the disclosures required by Section 210-20-50. The scope includes:

- a. Recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in accordance with either Section 210-20-45 or Section 815-10-45
- b. Recognized derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

BC3. The amendments do not affect the effective date of the disclosures required by Section 210-20-50.

## Background Information

BC4. In December 2011, the Board issued Update 2011-11 as a result of a joint project with the IASB on the disclosures about offsetting assets and liabilities. Update 2011-11 required an entity to provide disclosures about offsetting assets and liabilities for both of the following:

- a. Recognized financial instruments and derivative instruments that are offset in accordance with either Section 210-20-45 or Section 815-10-45
- b. Recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45.

BC5. Once preparers of financial statements began preparing for that Update's implementation, they raised questions about the intended scope of the requirements, noting that many contracts include standard commercial provisions allowing either party to net in the event of default, which would be similar to an enforceable master netting arrangement. They noted that implementing that broad scope would require a comprehensive review of all contracts to determine whether each contract contained those provisions and, therefore, was within the scope of the disclosures.

BC6. Additionally, broker-dealer preparers questioned whether receivables and payables from unsettled regular-way trades would be in the scope of Update 2011-11. The Board received feedback in drafting Update 2011-11 that unsettled regular-way trades would not be in that Update's scope because they were not subject to a master netting arrangement or similar agreement. Upon further review, broker-dealer preparers noted that the contracts had evolved and that they now believe that the contracts were equivalent to a master netting arrangement or similar agreement.

BC7. In November 2012, the Board published a proposed Accounting Standards Update, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The Board received 28 comment letters on the proposed Update. All respondents supported the Board's effort to clarify the scope of Update 2011-11, noting that the proposed clarification cured significant operability and auditing concerns that were inherent in the scope of Update 2011-11.

## Scope

BC8. In light of feedback, the Board reviewed the initial scope of Update 2011-11 considering many factors, including the objective of Update 2011-11, operability, analysis of costs versus benefits, and usefulness of information about transactions containing enforceable master netting arrangements. The Board wanted to provide users of financial statements with comparable information as it relates to reconciling differences for the in-scope instruments between financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with IFRS. Users of financial statements consistently communicated the need to reconcile offsetting differences between U.S. GAAP and IFRS about three products, specifically, derivatives, repurchase agreements, and securities lending transactions.

BC9. Stakeholders also noted that the FASB and the IASB specifically excluded from Update 2011-11 both (a) loans and customer deposits at the same institution (unless they are offset in the statement of financial position) and (b) financial instruments that are only subject to a collateral agreement, citing concerns about operability. In the basis for conclusions of Update 2011-11, the Boards noted that these rights of offset are primarily a credit enhancement and

not a primary source of credit mitigation. These same factors could be analogized to both trade payables and trade receivables and unsettled regular-way trades.

BC10. Preparers of financial statements also noted that the cost of preparing the disclosures would be significant and the benefits would be minimal. The broad scope requires an entity to analyze comprehensively all contracts to determine whether any contract for a financial instrument or derivative instrument is a master netting arrangement or similar agreement. Preparers noted that including a clause that allows all receivables and payables with a particular counterparty to be net in an event of default is a standard commercial provision of many contracts today. As discussed earlier, this clause is seen as a credit enhancement and not a primary source of credit mitigation. In order to offset trade receivables and trade payables in financial statements, an entity would need to meet all criteria for a right of setoff, including the intent to net settle in the ordinary course of business. Generally trade receivables and trade payables that the entity has the intent to settle on a net basis in the ordinary course of business would be presented similarly on a net basis in both financial statements prepared in accordance with U.S. GAAP and financial statements prepared in accordance with IFRS. Additionally, preparers of financial statements also noted that deliberations leading up to the issuance of Update 2011-11 and most of the communication from auditors and others related to the impact on derivatives, repurchase agreements, and securities lending transactions.

BC11. As it relates to trade date receivables and payables related to unsettled regular-way trades, there is a longstanding industry practice in the United States to present on a net basis the short-term receivables and payables that arise before settlement. While developing Update 2011-11, stakeholders told the Board that these instruments were not subject to a master netting arrangement and therefore were not in the Update's scope. However, upon closer review, the stakeholders told the Board that the contracts governing these arrangements would be considered a master netting arrangement. Also, there is an option under IFRS to record these instruments on a trade-date basis or a settlement-date basis. Therefore, disclosing the gross amounts of these transactions would not necessarily facilitate comparing the amounts recorded under U.S. GAAP with those recorded under IFRS.

BC12. Given the uncertainty about the intended scope, the Board proposed in the proposed Update to limit the scope of the disclosures required by Section 210-20-50 to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. In this Update, the scope of the derivative instruments subject to the disclosures required by Section 210-20-50 is limited to derivative instruments accounted for in accordance with Topic 815, including bifurcated embedded derivatives.

BC13. The term *derivative instrument* included in the scope paragraph of the proposed Update linked to the definition in the Master Glossary of the Codification. Respondents noted that the disclosures are most relevant to derivative instruments accounted for in accordance with Topic 815. Derivative instruments that are not included in the scope of Topic 815 have separate accounting and disclosure requirements that would be relevant based on the specifics of the instruments. Additionally, including derivative instruments not included in the scope of Topic 815 would require significant additional costs. As such, the Board limited the scope of disclosures about derivatives to those accounted for in accordance with Topic 815. Additionally, the Board considered feedback on clarifying the Board's intent related to bifurcated embedded derivatives. The Board decided that bifurcated embedded derivatives should be included in the scope of the disclosures. The Board concluded that including bifurcated embedded derivatives would provide a more complete disclosure of the derivatives portfolio and is consistent with the disclosure requirements of Subtopic 815-10.

## Effective Date and Transition

BC14. The Board decided that the amendments in this Update should be effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required retrospectively for all comparative periods presented. The Board concluded that the scope clarification alleviates issues that have arisen in implementing Update 2011-11, while providing users of financial statements with the needed comparable information. The Board also concluded that the considerations are similar for nonpublic entities; that is, because the scope was clearly communicated in Update 2011-11, there is no need to provide a deferral for nonpublic entities.

## Benefits and Costs

BC15. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC16. Preparers of financial statements have said that many entities would incur significant costs in applying the scope of Update 2011-11 if it were applied broadly. The Board concluded that the scope clarification contained in this Update will reduce the costs associated with implementing the disclosures, while still providing users of financial statements with the requested comparable information for those instruments within the scope of paragraph 210-20-50-1.

## Amendments to the XBRL Taxonomy

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There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.