



Wednesday, April 27, 2011

The International Accounting Standards Board
30 Cannon Street
London, United Kingdom
EC4M 6XH

Re: Exposure Draft – Offsetting Financial Assets and Financial Liabilities

The Committee on Corporate Reporting (CCR) of the Financial Executive International Canada (FEI Canada) is writing to provide its response to the International Accounting Standards Board (IASB) Exposure Draft (ED) ED/2011/1 *Offsetting Financial Assets and Financial Liabilities*.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 30 senior financial executives representing a broad cross-section of the FEI membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

In general, we are supportive of the approach proposed in the ED and of the efforts of both the IASB and FASB to develop and issue the joint proposals to converge accounting treatment and presentation in this area. There are some areas of the exposure draft where we have some concern or would seek further clarification and we have addressed these in our answers to the questions posed in the ED.

The replacement of IAS 39 Financial Instruments, Recognition and Measurement is a complex and large undertaking. As such, the components of IFRS 9 have been issued as independent projects. We are concerned that in taking this approach, the "view of the whole" may have been lost. We urge the IASB to consider the linkages between standards with respect to approach, disclosure and implementation as it continues to work on the various Financial Instrument projects.

In response to the specific questions in the ED, we have the following comments:



Question 1—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:

(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?

Yes, we agree with the proposed requirement and the establishment of an overarching principle for offsetting financial assets and financial liabilities. It is our understanding that there should not be significant differences in what qualifies for net treatment under this exposure draft and the current IAS32. If this is the case, more clarification may be needed in the area of simultaneous settlement with respect to clearing house settlement. In particular, we are concerned with the “at the same moment” definition; in cases where any delay exists yet where settlement risk has been eliminated, the offsetting criteria should be considered to have been met.

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 offset-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, we are in agreement with proposal that the right of set-off must be enforceable in all circumstances. Additional clarity regarding intended differences with IAS 32 with respect to master netting agreements would assist with the current preparers’ understanding whether the criteria as noted are met.

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 see no reason why the proposal should not apply to multilateral arrangements that meet the criteria.



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?

Yes, We agree that the disclosure requirements should provide meaningful information to the users of financial statements, however we have some concern that the solution to meaningful information in this case may be excessive. We would like a balance between relevance and practicality of disclosure that is applied consistently. In our view, the required disclosure in ED 12 (c) and (d) and 13 is only relevant for entities that report certain financial instrument transactions on a net basis and should not be required for all transactions.. We encourage a review with the other financial instrument projects and the existing IFRS 7 disclosures with the view to consistency and removal of any disclosure duplication.

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.

Yes, we agree that the proposed requirements should be applied retrospectively. Again, we encourage consideration of aligning the various components of IFRS 9 where possible. If this requires large time intervals prior to being effective, early adoption should be considered.

Thank you for the opportunity to provide input to the IASB’s deliberations on offsetting financial assets and financial liabilities.

Regards,

A handwritten signature in black ink, appearing to read 'Tyrone Cotie'.

Tyrone Cotie
Chair
Committee on Corporate Reporting
FEI Canada