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ASB

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

‘ED/2011/1 Offsetting Financial Assets and Financial Liabilities’

There is a need for a common approach between the FASB and the IASB.

Many of the changes affect those practitioners/accountants involved in entities with an ongoing application of IAS 39 and IAS 32- presentation

The proposals pre-suppose a commonality of approach in statute and the application of same financial assets and liabilities.

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?

Whilst we would agree in general it might be preferable to allow entities to have the option of presenting Gross Asset and Gross Liabilities provided such an option once taken becomes mandatory for all the financial assets and liabilities of the entity.

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

We agree with the proposed requirement.

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?

This raises the issue where securitised mortgages were sold by Bank A to Bank B who sold some to Bank C who sold some to Bank D who in turn sold some to Bank A Assume each had a right of call in the event of a default of mortgagee [is this realistic?]

The difficulty of keeping track by Bank A of its rights and obligations may make it impractical to effectively delineate its right and obligations However para 09 excluding assets that are pledged as collateral may anticipate this

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?

We agree in general with the disclosure requirements. But it might also be necessary to disclose whether the Financial Asset and the Financial Liability are subject to the same common law systems.

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.

- (a) We agree with the proposed transition requirements.
- (b) No comment.

The Institute of Certified Public Accountants would be happy to discuss the above with you.

Yours sincerely,

Declan Nestor
Chairperson, Financial Reporting Sub - Committee