

IFRS in Focus

IASB issues exposure draft on offsetting financial assets and financial liabilities

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The Bottom Line

- The exposure draft proposes a framework for offsetting of financial assets and financial liabilities in the scope of IAS 39.
- The exposure draft results from a joint project between the IASB and the US Financial Accounting Standards Board and proposes that US GAAP requirements converge with the existing principles of IAS 32.
- The exposure draft would introduce additional useful application guidance but the principles of the offsetting requirements in IAS 32 remain unchanged.
- The exposure draft proposes new, additional disclosures about financial assets and financial liabilities that are subject to offsetting.
- Comments on the proposals are due by 28 April 2011.

On 28 January 2011, the International Accounting Standards Board (IASB) issued an exposure draft ED/2011/01 *Offsetting Financial Assets and Financial Liabilities* (ED). This ED follows deliberations between the IASB and the US Financial Accounting Standards Board (FASB) (collectively 'the Boards') and results in convergence of their accounting standards on the offsetting of financial assets and financial liabilities.

The ED would introduce additional application guidance that would be helpful in applying the current offsetting principles in IAS 32. For example, the ED would clarify that a right of set-off that may be removed by a future event would not be an unconditional right of set-off. Similarly, if the right of set-off is exercisable only before a specific date, that right of set-off would not qualify as an unconditional right of set-off. However, a right of set-off that was conditional at inception of the contract may subsequently become unconditional if the contingent event occurs.

The ED also proposes additional qualitative and quantitative disclosures for financial assets and financial liabilities subject to offset.

The proposed offsetting requirements apply to all items within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. Comments on the proposals are due by 28 April 2011.

Additional proposed disclosures

As of each reporting date, an entity would be required to provide detailed disclosures, in tabular format, in respect of assets and liabilities which are offset under the ED's requirements and about assets and liabilities for which a right of set-off exists but which do not meet the criteria for offsetting.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Effective date and transition

The Boards are seeking feedback from constituents on the amount of time and effort they would need to implement the proposed requirements. The Boards plan to discuss the effective date of any final Standard after taking into consideration feedback received on the ED and the recent Request for Views on effective dates and transition methods.

The proposed presentation and disclosure requirements would be applied retrospectively to all periods presented.

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