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14 April 2011

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

Our Ref: 2011/JE/TCSC1/IASB/61

RE: Exposure Draft: *Offsetting Financial Assets and Financial Liabilities*

Dear IASB Members:

The International Organization of Securities Commissions Standing Committee No. 1 (SC 1) on Multinational Disclosure and Accounting thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Offsetting Financial Assets and Financial Liabilities*, which was part of a joint project by the IASB and the US Financial Accounting Standards Board (the Boards).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of SC1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

We support the Boards undertaking this project to improve the quality of information provided to investors about financial assets and financial liabilities. We welcome the potential to converge the Boards' respective requirements for offsetting financial assets and financial liabilities.

While we support the overall direction and objective of the joint project, we have provided feedback below on certain aspects of the proposal where we have some concerns.

Responses to the Board's Questions

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:

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(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 agree with the proposed criteria for offsetting. We also agree that an entity should be required to offset a financial asset and a financial liability if the proposed criteria are met.

We note the main text of the proposed standard does not address reassessment of either the right of set-off or the intention to exercise that right of set-off. While the application guidance at paragraph C15 addresses reassessment of right of set-off, we believe that the reassessment requirement should be incorporated into the main text and broadened in scope to require reassessment of not only the right of set-off but also the reporting entity's intention to set-off.

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 that the right of set-off must be unconditional and enforceable in all circumstances. In addition, we support the concept that to settle on a net or simultaneous basis means at the same time so that a company does not have an exposure at any point to one leg of the transaction.

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 agree that the offsetting criteria should apply whether the right of set-off arises from a bilateral arrangement or from a multilateral arrangement. We agree with the Boards that there is no conceptual basis to limit offsetting to bilateral arrangements – the key is that the offsetting criteria must be met in order for a financial asset and financial liability to be offset.

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?

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We agree with the direction of the proposed disclosure requirements. However, we believe that the requirement in paragraph 12(f) could be enhanced by requiring disclosure of collateral obtained or pledged that is not cash or another financial instrument. Some arrangements, for example, might involve the exchange of commodities or other property as collateral. Such collateral, solely as a result of its form, would not be required to be disclosed. We do not believe that there is any conceptual merit to requiring disclosure of some forms of collateral but not others.

We support the inclusion of the illustrative example for its potential to foster robust application of the disclosure requirements. We note that the example includes financial assets and financial liabilities that are described on the basis of product characteristics (such as, "Exchange traded financial instruments" and "OTC derivatives, repurchase and stock lending agreements and similar financial instruments") and accounting classification characteristics (such as "Financial assets at fair value through profit or loss"). To avoid any confusion as a result of the possibility that any one financial asset or financial liability could fit into both of the illustrated descriptions, we recommend that the Boards use either product characteristics or accounting classification characteristics in the illustrative table, but not both. The Boards could then note in the introductory paragraph (IE1 for the IASB) that either product or accounting classification characteristics would be an appropriate approach to describing the financial assets and financial liabilities.

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.

We agree with the proposed retrospective transition requirement. We believe that a retrospective approach will facilitate users' analysis and understanding of the information. We believe that the Boards should consider an effective date for transition in connection with their assessment of transition dates for the other proposed changes to IFRS.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

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