

Comments on the Exposure Draft - Offsetting Financial Assets and Financial Liabilities:

DZ BANK AG

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 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?

We support the proposal to reduce the differences between International Reporting Standards and US generally accepted accounting principles based on the existing offsetting criteria in IAS 32. We agree that the right to offset is required in case of the existence of an unconditional and legally enforceable right to offset and the intention to settle the financial assets and the financial liabilities on a net basis or simultaneously. To avoid a differing use, there should be explicit guidance regarding the interpretation of the meaning of to realise the financial assets and settle the financial liabilities "simultaneously" that is close to current market practice.

To ensure a consistency between balance sheet and disclosures, the offsetting criteria should be either based on cash flows or on risk based characteristics. If the financial statements represent mainly risk based characteristics, the offsetting criteria should be methodically equal to internal risk management or regulatory reporting methods. We also refer on our answer to question 4 on this aspect.

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 (ie 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?

See our answer to question 1.

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 with the proposal to keep the scope of the offsetting guidance unchanged and require offsetting for both bilateral and multilateral arrangements that meet the offsetting criteria. We'd like to mention that bilateral and multilateral offsetting arrangements with Central Counterparties (CCP) become more important to reduce the amount of counterparty risks.

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 with the proposed disclosure requirements in paragraph 12 a) and 12 b), which include the gross amounts before offsetting, the offsetting amount in accordance with the offsetting criteria and the net amount presented in the statement of financial position. In our view these disclosures are conceptually related to the proposed offsetting criteria. In this case balance sheet information and disclosures are consistent as a whole. With the information in paragraph 12 a) and b) the users of the financial statements could understand the effects of offsetting rights and arrangements on the entity's financial position. We criticise the proposed disclosure requirements which are not closely related to the rights to offset financial assets and financial liabilities in Paragraph 12d), 12e), 12f) and 12g). These proposed requirements include risk based information, which intends to reflect the net exposure in the event of default of an entities counterparties. At this point we'd like to pick up our comment on question 1. With regard to the missing conceptual consistency between balance sheet and disclosures we think that it is not appropriate to mix cash flow oriented and risk related information. In our opinion a risk based financial reporting is consistent if the offsetting criteria are also based on internal or regulatory netting rules. If the offsetting criteria contain mainly cash flow oriented information there should be no need to require any risk based disclosures to reflect the net exposure. We also criticise the level of detail of one specific aspect. We recommend that the proposed disclosures should not be disproportionate compared to the other disclosure requirements of IFRS 7. In consequence we think that there is no need to require any disclosures that include credit risk information like in Paragraph 12d), 12e), 12f) and 12g).

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.

On (a):

We disagree with the required disclosures for the previous period in the year of first adoption. In our opinion this information contains no relevant information for the users of the financial statements in the current year. Concerning the extended disclosures, the initial application should occur in accordance with the other Phases of IFRS 9.

On (b):

According to our initial assessment we need a timeframe of about two years to implement the significantly expanded and specific disclosure requirements. Especially the information about legally enforceable, conditional rights of sett-off are not represented in our financial reporting systems yet.