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E-mail: commentletter@efrag.org

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Ref.: BAN/PRJ/SKU/IDS

Dear Ms. Flores,

**Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft
*Offsetting Financial Assets and Financial Liabilities***

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its response to the EFRAG Draft Comment Letter on the IASB Exposure Draft *Offsetting Financial Assets and Financial Liabilities* (the "ED").
- (2) We welcome that both the International Accounting Standards Board (IASB) and the Financial Accounting Standard Board (FASB) developed a joint proposal in relation to offsetting financial assets and liabilities. Like EFRAG, we support the IASB decision to use the existing guidance for offsetting purposes as detailed in IAS 32 *Financial Instruments: Presentation* with the proposed refinements.
- (3) Overall, we support the proposals as presented in the ED since it is principle based and ensures consistent treatment of all financial assets and liabilities. We believe that most of the suggested refinements are not likely to give rise to significant concerns, represent a step in the right direction in the context of moving towards a global standard for financial instruments and we do not consider that preparers would face major difficulties to apply them in practice. Below we discuss the issues that we propose for reconsideration.

Offsetting criteria

- (4) We agree with EFRAG and support the IASB's proposal to establish an overarching principle for offsetting financial assets and financial liabilities based on the existing criteria in IAS 32 *Financial Instruments: Presentation* requirements.
- (5) Like EFRAG, we agree with the proposal clarifying that the right to set off the financial asset and the financial liability must be unconditional, legally enforceable in all circumstances (and its exercisability must not be contingent on a future event).
- (6) We agree with EFRAG that it is the right approach to keep the scope of the offsetting guidance unchanged and require offsetting for both bilateral and multilateral arrangements that meet the offsetting criteria, despite the fact that multilateral offsetting is likely to be unusual.

- (7) Our only concern is that the exposure draft clarifies that realisation of a financial asset and the settlement of a financial liability qualify for net presentation only when the settlement occurs at the same moment. Therefore settlements which take place over the course of a single day, but not at the exact same moment, would not meet this criterion, even if there were no substantive risks associated with the timing difference. We consider this guidance as more restrictive compared to current practice and would prefer to allow netting in cases of non-existence of settlement risk for intraday offsetting transactions.

Disclosures

- (8) We believe that the proposed disclosures about rights to offset financial assets and financial liabilities of an entity and the related arrangements (including information on collateral and master netting agreements) would be welcome by many users with different needs. However, we are concerned that certain proposals will require significantly more detailed information than is currently the case and that this may result in a disproportionate level of detail as compared with disclosure requirements in other areas.

Costs and benefits

- (9) We think that the benefits resulting from the proposals would outweigh the costs related to it as they would meet many users' needs and help them make more informed decisions. Also, provided the level of disclosures is reconsidered, we are of the opinion that the requirements will not put the preparers under unnecessary burden.

Effective date and transition

- (10) We agree with EFRAG that the effective date of the proposals should not necessarily be aligned with the application of IFRS 9 *Financial Instruments* and could be an earlier date.
- (11) Like EFRAG, we support the proposed retrospective application.

For further information on this letter, please contact Sylwia Kujawa, Project Manager, at the FEE Secretariat on +32 2 285 40 86 or via email at sylwia.kujawa@fee.be.

Yours sincerely,



Philip Johnson
President