

BELGIAN ACCOUNTING STANDARDS BOARD



EFRAG
Françoise Flores
Chairman
Meeûs Square 35
1000 Brussel
Belgium

correspondent	Our reference	Your reference	Date
Ignace Bogaert Tel: +32(2)277 61 74 ignace.bogaert@cnc-cbn.be	C-043		14th of April 2011

Dear Madam,

Invitation to comment – IASB ED Offsetting Financial Assets and Financial Liabilities

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on Offsetting Financial Assets and Liabilities issued by the IASB (the “Board”) in January 2011 (hereinafter the “ED”). In order to facilitate the discussion within its Advisory Panel, the BASB has commented on the view of the European Financial Reporting Advisory Group (EFRAG) reflected in their draft Comment Letter.

For IFRS reporters, we are of the opinion that the proposed offsetting approach in the ED is similar to the current requirements of IAS 32 *Financial Instruments: Presentation*. Indeed, the ED proposes that an entity should offset a recognized financial asset and liability when and only when the entity: (a) has an unconditional and legally enforceable right to set off the financial asset and liability, and (b) intends either to settle the financial asset and liability on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

The most important change, compared to the current guidance under IAS 32, is the removal of the word *currently* from *currently has a legally enforceable right* (IAS 32 § 42) and the addition of the requirement that the right itself should be unconditional. We agree with EFRAG’s view that these principles are already being applied in the current guidance and hence we do not have any fundamental comments on these proposed changes.

Besides the conceptual changes, the ED also proposes additional disclosures with regard to the application of the offsetting principle. The BASB fails to understand why an entity is required to disclose the gross amounts of financial assets and financial liabilities before taking into account any offsetting. We are of the opinion that once the offsetting principle is correctly applied, no further disclosures in relation to a gross presentation are required.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB

Response to questions in the Exposure Draft

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?

EFRAG's response

EFRAG supports the IASB's proposal to establish an overarching principle for offsetting financial assets and financial liabilities. EFRAG also agrees with the proposal to retain the existing criteria in IAS 32 for offsetting financial assets and financial liabilities.

BASB's response

We agree with EFRAG's view.

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?

EFRAG's response

EFRAG agrees with the proposal to clarify that the right to set off the financial asset and the financial liability must be unconditional and legally enforceable in all circumstances.

BASB's response

We agree with EFRAG's view.

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?

EFRAG's response

EFRAG agrees 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.

BASB's response

We agree with EFRAG's view.

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?

EFRAG's response

EFRAG agrees with the proposal to require disclosures about rights to offset financial assets and financial liabilities of an entity and the related arrangements, including information about collateral and master netting arrangements. However, we urge the IASB to ensure that the level of guidance included in the disclosure standard remains consistent and balanced across topics.

BASB's response

We agree with EFRAG's view.

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.

EFRAG's response

EFRAG supports the proposed retrospective application.

BASB's response

We agree with EFRAG's view.