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Re: *EFRAG draft comment letter on IASB Exposure Draft Offsetting Financial Assets and Financial Liabilities*

Dear Françoise,

I am writing on behalf of the Italian Accounting Standards Setter (OIC) to respond to the EFRAG draft comment letter on IASB Exposure Draft Offsetting Financial Assets and Financial Liabilities ('the ED').

The OIC welcomes the IASB's efforts to develop a common approach with the FASB to offsetting financial assets and financial liabilities in the statement of financial position, based on the existing IAS 32 requirements with some clarifications, in order to improve the comparability of statements of financial position.

In general, we appreciate and we support the proposals in the ED. This is an example of both Boards working towards convergence to high quality standards. However, as explained better below, we believe that some disclosure requirements are excessively burdensome to prepare and we are not persuaded that providing all these disclosures will result in more useful information for users.

Bearing in mind this general concern, our detailed responses to the ED questions are as follows:

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?

We agree with the IASB's offsetting criteria proposed in the ED. We support the decision to retain, as a basis for the converged requirements, the existing criteria in IAS 32 for offsetting financial assets and financial liabilities, and 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. Such criteria result in the faithful representation of the underlying economic event, reduce potential interpretative doubts and encourage the uniform application of the offsetting criteria.

We note that the main text of the ED does not include any requirements to reassess the right of set-off. We suggest that the IASB move the application guidance on periodic re-assessment of the right of set-off in paragraph C15 of the ED from appendix C to the main text of the ED. This is because the role of the application guidance is to clarify the requirements included in the main text, rather than to introduce important additional requirements.

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?

As explained above, we agree with this proposal.

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 because there are no reasons for excluding multilateral set-off arrangements from the scope of the ED if all the criteria are satisfied for the transaction. We do not see any conceptual basis for prohibiting the application of these criteria to an arrangement only because it is between more than two parties.

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 IASB's decision to disclose information about rights of set-off and related arrangements (such as collateral agreements) associated with the entity's financial assets and financial liabilities to enable users of its financial statements to understand the effect of those rights and arrangements on the entity's financial position.

In particular, we believe that the information about the gross amounts will be useful in better understanding the effective risks underlying the different transactions.

However, we believe that the minimum disclosure requirements in paragraphs 11-15 of the ED are excessive and too complex to produce. In particular, it is too burdensome to provide

the following information:

- the amount of financial assets and financial liabilities that the entity has a conditional right to set off, separately by each type of conditional right;
- the amounts of financial assets and financial liabilities that the entity has an unconditional and legally enforceable right to set off but that the entity does not intend to settle net or simultaneously.

In any case, we suggest that the IASB consider the proposals in the ED in the context of the existing disclosure requirements in IFRS 7 and ensure that the level of guidance included in the disclosure standard remains consistent and balanced across topics.

Question 5 - Effective date and transition

- Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?*
- Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.*

Consistently with our answer to the Request for Views Effective Dates and Transition Methods, we believe that the effective date of these proposals should be 1 January 2015 at the earliest.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)