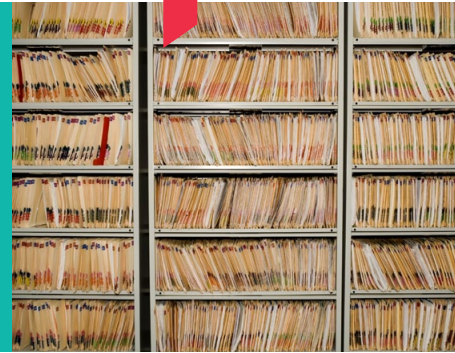


OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS ALERT 2012/03

JANUARY 2012



On 16 December 2011, the IASB issued *Offsetting Financial Assets and Liabilities – Amendments to IAS 32*, and *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*.

The amendments clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP.

Offsetting, also known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position. There are currently differences between IFRS and US GAAP. IFRS does not allow companies the option to offset derivatives that are subject to a legally enforceable netting arrangement with the same party where rights to set-off are only available in the event of default or bankruptcy. In contrast, preparers of US GAAP financial statements are given that option.

The IASB and the FASB therefore issued an exposure draft that proposed new criteria for netting that were narrower than the conditions in US GAAP. However, the boards have ultimately retained the existing (different) offsetting models for accounting purposes, and have issued new disclosure requirements that should allow investors more easily to compare financial statements prepared in accordance with IFRS or US GAAP.

Offsetting Financial Assets and Liabilities – Amendments to IAS 32

IAS 32.42, which is unchanged, requires that an entity offsets financial assets and financial liabilities when it has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. However, new guidance in IAS 32.AG38B clarifies that the right of set-off:

- a) must not be contingent on a future event; and
- b) must be legally enforceable in all of the following circumstances:
 - i) the normal course of business;
 - ii) the event of default; and
 - iii) the event of insolvency or bankruptcy of the entity and all of the counterparties.

Some gross settlement systems, which are used to settle financial assets and financial liabilities, may be considered equivalent to net settlement. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, offset will be required. This is only the case if the gross settlement system has features that either eliminate, or result in insignificant, credit and liquidity risk and will process receivables and payable in a single settlement process or cycle.

The amendments are to be applied retrospectively for periods beginning on or after 1 January 2014. Earlier application is permitted.

STATUS

Final

EFFECTIVE DATE

Amendments to IAS 32:
Annual periods beginning on or after 1 January 2014 (early adoption permitted).

Amendments to IFRS 7:
Annual periods beginning on or after 1 January 2013 and interim periods within those annual periods (early adoption permitted).

ACCOUNTING IMPACT

Clarification of offsetting requirements and introduction of new disclosures requirement for offsetting financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

New disclosures are required for all financial instruments that are set off in accordance with IAS 32.42 (see above) and for financial assets that are subject to an enforceable master netting arrangement or similar arrangement regardless whether they are set off.

The following information is required, in tabular form:

- a) the gross amounts of those recognised financial assets and recognised financial liabilities;
- b) the amounts that are set off when determining the net amounts presented in the statement of financial position;
- c) the net amounts presented in the statement of financial position;
- d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph b), including:
 - i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria; and
 - ii) amounts related to financial collateral (including cash collateral); and
- e) the net amount after deducting the amounts in d) from the amounts in c) above.

The amendments are to be applied retrospectively for periods beginning on or after 1 January 2013 and interim periods within those annual periods. Earlier application is permitted.

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