



**CA.RAKESH CHOUDHARY
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CHARTERED ACCOUNTANTS**

Comments to Exposure Draft ED/2011

Offsetting Financial Assets and Financial Liabilities

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?**

Comments:

An entity should offset financial assets and financial liabilities when meeting the following criteria's:

- 1.The financial asset/financial liability should be recognized and measurable.***
- 2.The entity should have an unconditional and legally enforceable right to set off on a net basis and an intention to settle the financial asset/liability simultaneously.***
- 3.There should be a master netting agreement and financial arrangement of set off on a net basis.***
- 4.The entity's ability to generate future net cash flows.***
- 5.The nature and amount of the entity's economic resources and claims against the entity.***
- 6.The entity's liquidity,solvency and capital adequacy (as per Basel I & II)***
- 7.There should be a credit risk and counter party credit risk rating for same risk group netting and set off of financial assets/financial liabilities***
- 8.Fair Value Measurement to financial assets/financial liabilities for netting and set offs.***
- 9.Adjustment for Impairments of Financial Assets is required for set off.***
- 10.Legally enforceable rights,contracts and confirmations for current/non current assets/liabilities for swaps contracts,hedge contracts and other derivative contracts***

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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?

Comments

The financial assets and financial liabilities must be offset if :

- 1.An unconditional and legally enforceable right is there.***
- 2.An intention to set off is there***
- 3.On Default,Insolvency,Bankruptcy,winding up and liquidation***
- 4.On Merger,Amalgamations,Acquisitions and Takeovers***
- 5.On Valuation of entities***
- 6.Fair Value Measurement of Financial Assets/Liabilities***
- 7.Future Net Cash Flows generated***
- 8.Bilateral and Multilateral agreements,financial arrangements for netting and set off of financial assets/Liabilities***
- 9.Legally enforceable rights/contracts/ confirmations for Financial Assets/ Liabilities for swaps contracts,hedge contracts and other derivative contracts***
- 10.Master Netting Agreement***

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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?

Comments

Yes I agree that the entity would require offsetting for both bilateral and multilateral set-off financial arrangements that meet the offsetting criteria and confirmation process complied with for netting and set off of Financial Assets/Liabilities.

The situations in which a multilateral right of set off may be present:

- 1.Same Counterparties for financial arrangements.***
- 2.Financial Agreement between counterparties for netting and set off of balance on accounts.***
- 3.Debtors' and Creditors' Legally Enforceable Right of Set off***
- 4.Intention and ability to set off by counterparties***
- 5 Confirmation of transactions and an legally enforceable contract between counterparties***
- 6.Compliance of International Laws***
- 7.Collateral and Pledges secured against legally enforceable contracts and transactions for Loans and Advances(Secured)***
- 8.Credit Risk Valuations and set off of risk transactions and contracts.***
- 9.Capital Adequacy of the entities/counterparties***
- 10.Cash Collaterals to debts of counterparties***

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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?**

Comments

Yes, I agree with the proposed disclosure requirements and should include the following disclosure:

- 1. Tabular format for all the netting and set off of Financial Assets/Liabilities***
- 2. The above should be prepared for all the Non-Current Assets and Current Assets i.e Plants and Equipments, Other Fixed Assets, Loans and Advances (Secured and Unsecured, Debtors, Creditors, Current Liabilities & Provisions, Deferred Tax, Capital, Reserves and Surplus, Receivables and Payables etc.***
- 3. Fair Valuation of Financial Assets and Financial Liabilities***
- 4. Tabular disclosures of Impairment of Assets***
- 5. Basel I & II Compliance and disclosures for entities like Banks etc.***
- 6. Disclosures of Cash Collaterals and Secured Collaterals and Pledges***
- 7. Disclosures of all Financial Instruments, hybrid instruments and other derivatives***
- 8. Disclosure of the tax effects and dividends***
- 9. Bilateral and Multilateral Financial Arrangements, Contracts, Rights and Transactions***
- 10. Cash Flows from settling of assets and accounts of counterparties on netting and setoff financial instrument wise.***

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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.**

Comments

Yes, I agree with the proposed transition requirements as in Appendix A.

“An entity shall apply this IFRS for annual and interim periods beginning on or after.”

***The IFRS shall be applied retrospectively for all comparative periods presented”
Comparative Periods can be for 3 periods including the current period.***

***The Annual and Interim Periods for IFRS to be implemented retrospectively as per
laws prevailing in the respective countries.***

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