



International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

26 March 2011

**Re: Exposure Draft Offsetting Financial Assets and Financial Liabilities**

Dear Sirs

The Roche Group has a turnover of CHF 47 bn. a year (EUR 37 bn.) derived from our worldwide healthcare business - pharmaceuticals and diagnostics - and employs over 80,000 worldwide. We have a market capitalisation (end 2010) of CHF 118 bn. (EUR 95 bn.) We have been preparing our consolidated financial statements according to IFRS/IAS since 1990 and therefore have a substantial interest in how these develop, so we appreciate this opportunity to give input on this proposal.

We welcome the IASB's efforts to develop proposals for converged requirements for offsetting financial assets and liabilities and support the decision to use, as a basis for the converged requirements, the existing principles for offsetting financial assets and financial liabilities in IAS 32 *Financial instruments: Presentation*. We agree with the proposal to retain the existing clear, principle-based criteria for offsetting, namely, the existence of a legally enforceable right *and* the intention to settle the financial asset and the financial liability on a net basis or simultaneously. The application of these criteria under the existing IAS 32 results in our view in the faithful representation of the underlying economic event, being a *net* cash inflow or outflow, and so ensures the relevance of the information provided in the financial statements. The alternative possibility of netting where there is *no* intention to net would in our view to give insufficient weight to economic reality and too much weight to purely legal aspects and thus to deprive users of meaningful, decision-useful information.

However, there are certain points in the ED with which we have to disagree. The inclusion in paragraph 10 (e) of the extremely restrictive requirement for enforceability in all circumstances including insolvency or bankruptcy is most unhelpful. It would render netting impossible in so many circumstances where, economically, it would be completely justified – and desirable from the users' viewpoint. Indeed, if trade receivables were viewed with the same mind-set, they would rarely if ever be recognised – which would not be very helpful. It is a quite excessively legalistic approach. We suggest that such conditions should only come into play in the presentation decision where some indication exists at balance-sheet date (or before publication) that they are relevant.

**F. Hoffmann-La Roche AG** CH-4070 Basel  
Switzerland

Corporate Finance Accounting  
& Controlling  
Bldg/Room 52/1205

Tel. +41 61 68 84234  
Fax +41 61 68 84282  
alan.dangerfield@roche.com



With regard to disclosures we must again express our disappointment that the IASB appears to be taking an approach which would impose on non-financial institutions, which form the overwhelming majority of IFRS issuers, requirements which seem to be designed solely with financial institutions in mind. This would be excessive. In the following Appendix, which provides responses to the ED's specific questions, we make some suggestions on a more appropriate approach to disclosure. In any case the relationship of the disclosure proposals with the existing IFRS 7 must be systematically considered for consistency and cohesiveness.

Sincerely,

F. Hoffmann-La Roche AG

Ian Bishop  
Head of Finance – Accounting  
and External Reporting

Alan Dangerfield  
Finance - Accounting and External Reporting -  
External Relations



## **APPENDIX - RESPONSES TO THE SPECIFIC QUESTIONS**

### **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?*

See our covering letter.

### **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?*

See our covering letter.

### **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 that there is no valid reason to exclude multilateral offsetting.

### **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?*

With regard to disclosures we are disappointed that the IASB appears to be taking an approach which would impose on non-financial institutions requirements which seem to be designed solely for financial institutions. We would be excessive, in particular the numerical disclosures in paragraph 12 and the illustrative examples. We believe that the users wish to understand the terms and conditions of the offsetting agreements for considering residual credit risks: for this, narrative disclosures would be more suitable because the full transparency and faithful representation of the assets and liabilities already exists on the balance sheet.



**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.*

A future IFRS on offsetting should be effective at the same time as the complete replacement of IAS 39, not earlier than 1 January 2015.