



28 April 2011

International Accounting Standards Board  
1<sup>st</sup> Floor 30 Cannon Street  
London EC4M 6XH  
United Kingdom

*(By online submission)*

Dear Sirs

**RESPONSE TO EXPOSURE DRAFT ON OFFSETTING FINANCIAL ASSETS  
AND FINANCIAL LIABILITIES**

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Offsetting Financial Assets and Financial Liabilities (the ED) issued jointly by the International Accounting Standards Board and the US Financial Accounting Standards Board (collectively the Boards) in January 2011.

We applaud the Boards' efforts to jointly develop this ED to improve and bring to convergence the requirements for offsetting financial assets and financial liabilities.

Overall, we are supportive of the proposals outlined in the ED and believe that the ED, upon adoption, would enhance comparability between financial statements prepared under IFRS and US GAAP. However, we are of the view that certain aspects of the proposals can be further refined and/or clarified.

Our comments on the specific questions to the ED 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?**

Conceptually, we agree with the proposed offsetting criteria as the application of these criteria would result in the presentation of net cash inflow or outflow on the statement of financial position that faithfully reflects the underlying economic transactions, thereby augmenting the decision-usefulness of financial statements.

However, we believe that there is some ambiguity in the interpretation of the “simultaneous settlement” criterion in the case of clearing houses which could lead to significant diversity in practice. Paragraph C12 of the ED suggests that it may be possible for the operation of a clearing house not to fulfill the “simultaneous settlement” criterion. This appears to be a variation to paragraph 48 of IAS 32 whereby simultaneous settlement is deemed to occur through the operation of a clearing house. It is not clear from the current drafting of the ED if the Boards require entities to demonstrate the fulfillment of the simultaneous settlement criterion for each and every transaction with clearing houses prior to invoking the offsetting provisions. If this is indeed the Boards’ intention, we urge the Boards to reconsider the proposal as we believe it is onerous and would add undue operational burden to entities in situations where there are insignificant delays in settlement or almost simultaneous settlement due to processing constraints at the clearing houses. Furthermore, we recommend that the Boards clarify and tighten the syntax of the ED to avoid diversity in interpretation and application.

**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?**

We agree with the proposed requirement as we believe an entity would not have the right and ability to settle financial assets and liabilities either on a net basis or simultaneously unless the right of set-off is legally enforceable at all times and its exercisability is not contingent on any future event.

However, we envisage that there could be operational issues in implementing this proposed requirement in some circumstances due to the differences in legal frameworks in different jurisdictions. Situations could arise where the right of set-off is legally enforceable in one jurisdiction but that same right may not be legally enforceable in another jurisdiction. It is not clear if the Boards' intention is to require entities to undertake legal advice on the enforceability of the right in the relevant jurisdictions prior to invoking the offsetting provisions and we recommend that the Boards provide further clarification and guidance in the final standard to address these operational issues.

### **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 as there is no conceptual basis to exclude any arrangements from the scope of offsetting if all offsetting criteria as set out in the ED are satisfied.

### **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 are generally supportive of the proposed disclosure requirements as we believe the proposed disclosures would enhance users' understanding of the effects of the various types of right of set-off and related arrangements on an entity's financial position.

However, we are concerned that disclosure by class of financial instruments would not be possible for paragraphs 12(d) and 12(f) of the ED in situations where bilateral netting or collateral arrangements are contracted on a counterparty basis across various classes of financial instruments. We recommend that the proposed disclosures be provided at an appropriate aggregate level instead.

In addition, we note that certain disclosure requirements in the ED would duplicate the disclosure requirements in IFRS 7 Financial Instruments: Disclosures. For instance, paragraphs 12(d), 12(f) and 13 of the ED appear to duplicate the disclosure requirement under IFRS 7 paragraph 36(b). Furthermore, we observe that the ED would significantly expand the disclosure requirements for one specific aspect of financial instruments, and this appears to be disproportionate in comparison to the disclosure requirements in IFRS 7 pertaining to other aspects of financial instruments. We urge the Boards to streamline the disclosure requirements in this and other EDs on financial instruments as well as IFRS 7 on a holistic basis to ensure that a cohesive and cost-effective set of disclosure requirements for financial instruments could be established.

#### **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.**

We agree that the proposed requirements should be applied retrospectively as this would improve comparability and enhance the usefulness of financial statements.

We believe that a mandatory effective date of at least 2 years after the date of issue of the IFRS should be extended to allow entities sufficient lead-time to implement the proposals.

#### Others

##### ***Cash collateral in the form of margin account***

We understand that some clearing houses require a cash collateral known as a variation margin to be maintained to cover fluctuations in the market value of ‘over the counter’ and certain exchange traded derivatives. Typically, these clearing houses will set off the cash collateral against the amount owing by the entities and payment will be made by the entities net of the collateral. In substance, the collateral represents an advance payment for settlement of the cash flows arising on the derivatives.

We note that paragraph C14 of the ED specifically requires margin account to be presented separately at gross. However, the ED does not provide any clear explanation of why offsetting of the margin account against the associated financial asset/liability is prohibited in the above situation despite that all offsetting criteria as set out in the ED appear to be met. Hence, we urge the Boards to clarify the rationale for the prohibition or to reconsider the appropriateness of the proposal in paragraph C14 of the ED.

We hope that our comments will contribute to the Boards' deliberation on this ED. Should you require any further clarification, please contact the project manager at [Kuah Ee Wen@acra.gov.sg](mailto:Kuah_Ee_Wen@acra.gov.sg).

Yours faithfully

Siew Luie SOH (Ms)  
Secretary  
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