



Indian Banks' Association

CORPORATE & INTERNATIONAL BANKING

No.C&I/ED/2011-12/

April 28, 2011

The Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London
EC4M 6XH
UK

Dear Sir

Comment letter on IASB Supplement to Exposure Draft ED/2011/1 Offsetting Financial Assets and Financial Liabilities

We refer to the ED released by you in January 2011 relating to Offsetting Financial Assets and Financial Liabilities

We are grateful for the opportunity to respond to the ED issued by the IASB. We have consulted within the members of the Indian Banks' Association (IBA) Sub Group on IFRS Transition in respect of this ED. The comments below represent the views of our members.

- **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 to the proposed requirement. The proposals are similar to the existing requirements of IAS 32. One important change is the removal of the word "currently has a legally enforceable right" and the addition of the requirement that the right be unconditional. The right of set off is considered unconditional if its exercise is not contingent upon the occurrence of a future event; it is considered conditional if it becomes exercisable only upon the occurrence of a future event, such as bankruptcy, insolvency, default or change in control. Due to this change, derivative instruments subject to master netting arrangements are not likely to qualify for offsetting because netting provisions under master netting arrangements usually permit offsetting of assets and liabilities only in the case of default. Such a right of set off would be considered 'conditional' under the ED and would not satisfy the 'unconditional' requirement. This may result in a significant grossing up of balance sheets.

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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 (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. The ED specifies that for entities to offset a financial asset and a financial liability in the statement of financial position, the right of set off must be both unconditional and legally enforceable. The right of setoff is considered unconditional if its exercise is not contingent upon the occurrence of a future event; it is considered conditional if it becomes exercisable only upon the occurrence of a future event, such as bankruptcy, insolvency, default, or change in control.

In addition to being unconditional, the right of setoff also must be legally enforceable in both the normal course of business and in other situations, such as default, insolvency, or bankruptcy (i.e. it must be legally enforceable in all circumstances). Therefore, an entity would need to consider the laws and regulations governing the contracts in each applicable jurisdiction to determine whether the "legally enforceable" requirement is met. If the unconditional right of setoff is not legally enforceable in all circumstances, an entity would be precluded from offsetting the financial asset and financial liability in its statement of financial position.

- 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 long as the offsetting criteria specified by the ED are satisfied, the offsetting criteria can be applied to multilateral set-off arrangements. Generally, the notion of offsetting applies to bilateral arrangements and involves only two parties; however, the ED's proposed model applies to all types of arrangements. Therefore, the ED may require offsetting for multilateral arrangements if the criteria for offsetting are satisfied. For example, entities A, B and C may agree to set off amounts owed by A to B against amounts owed to A by C. In such an unusual circumstances, to the extent that the offsetting criteria are met, the ED requires offsetting of multilateral contracts.

- 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?

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We agree with the requirements. The IASB proposed these disclosures because they believe that there should be transparency available to the users of financial statement with regard to the net credit exposures of the entity.

• **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.**

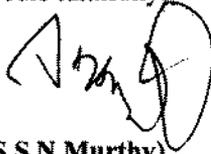
(a) We agree with the proposed retrospective requirements as it would increase comparability and will provide more useful information to users of financial statements.

(b) At this stage, we are unable to comment on the period. However, for banks in India, the IFRS convergence timelines are by April 2013. Assuming, the ED is finalised before the end of December 2011, we are of the opinion that the period left of one year and three months is sufficient enough to implement the proposed requirements.

If you have any questions relating to our comments, please contact me at +91 22 22174002 or email me at murthy@iba.org.in.

With kind regards,

Yours faithfully,



(S S N Murthy)
Sr. Vice President

