FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: January 28, 2011
Comments Due: April 28, 2011

Balance Sheet (Topic 210)

Offsetting

This Exposure Draft of a proposed Accounting Standards Update of Topic 210 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. 2011-100

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by April 28, 2011. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 2011-100. Those without email should send their comments to "Technical Director, File Reference No. 2011-100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Proposed Accounting Standards Update

Balance Sheet (Topic 210)

Offsetting

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Comment Deadline: April 28, 2011

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Why Are the FASB and the IASB Publishing This Exposure Draft?

Offsetting (netting) assets and liabilities is an important aspect of presentation in financial statements. The differences in the offsetting requirements in U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRSs) account for the single largest quantitative difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP and in the amounts presented in those prepared in accordance with IFRSs. This difference reduces the comparability of statements of financial position prepared in accordance with IFRSs or U.S. GAAP. As a result, users of financial statements have requested and the Financial Stability Board has recommended that the differences in the requirements for offsetting should be addressed expeditiously.

Some respondents to the International Accounting Standards Board (IASB) Exposure Draft, *Derecognition* (published in March 2009), also urged the IASB and the FASB to address the differences in their offsetting requirements. The FASB also received requests from its stakeholders to revisit the U.S. GAAP requirements for offsetting and in particular to permit offsetting for some stock-lending and stock-borrowing transactions. In response to those requests, the FASB and the IASB have developed this joint proposal to improve and potentially bring to convergence the requirements for offsetting financial assets and derivative assets (hereinafter referred to as an "eligible asset") and financial liabilities and derivative liabilities (hereinafter referred to as an "eligible liability").

In developing the proposed approach to offsetting eligible assets and eligible liabilities, the Boards considered various factors, including the following:

1. *Conceptual framework*—In evaluating whether and when offsetting in the statement of financial position is appropriate or provides useful information, the Boards considered whether and when offsetting is consistent with the objective and the qualitative characteristics of financial reporting information as described in their conceptual frameworks.
2. *User feedback and requests*—In their outreach activities the Boards found no consensus among users on the usefulness of presenting gross information or net information about eligible assets and eligible liabilities in the statement of financial position. There was, however, consensus among users that information about both the gross amounts of eligible assets and eligible liabilities and the net amount that results from offsetting is useful. Moreover, most users urged the Boards to provide a

common approach in order to enhance international comparability, especially among banks.

3. *Convergence*—The offsetting project presents an opportunity to improve IFRSs and U.S. GAAP requirements on this topic and to achieve convergence of IFRSs and U.S. GAAP.
4. *Market environment*—In the light of the recent financial crisis, regulators, preparers, auditors, and others have called for an improvement to, and convergence of, the requirements for offsetting eligible assets and eligible liabilities.

Who Would Be Affected by the Proposed Requirements?

The proposed requirements would affect all entities. The proposed requirements would amend the requirements on offsetting in Subtopic 210-20 in U.S. GAAP.

What Are the Main Proposals?

Under the proposals, an entity would be required to offset (that is, present as a single net amount in the statement of financial position) a recognized eligible asset and a recognized eligible liability when it has an unconditional and legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously (the “offsetting criteria”).

The proposals clarify that the offsetting criteria would apply whether the right of setoff arises from a bilateral arrangement or from a multilateral arrangement (that is, between three or more parties). The proposals also clarify that a right of setoff must be legally enforceable in all circumstances (including default or bankruptcy of a counterparty) and that its exercisability must not be contingent on a future event.

The proposals would require an entity to disclose information about offsetting and related arrangements (such as collateral agreements) to enable users of its financial statements to understand the effect of those arrangements on its financial position.

What Is the Objective of the Proposed Requirements?

The proposed requirements establish a principle for offsetting eligible assets and eligible liabilities that ensures that a recognized eligible asset and a recognized eligible liability are offset only if:

1. On the basis of the rights and obligations associated with the eligible asset and eligible liability, the entity has, in effect, a right to or obligation

for only the net amount (that is, the entity has, in effect, a single net eligible asset or eligible liability); and

2. The amount, resulting from offsetting the eligible asset and eligible liability, reflects an entity's expected future cash flows from settling two or more separate eligible instruments.

In all other circumstances, an entity's recognized eligible assets and recognized eligible liabilities are presented in the statement of financial position separately from each other, according to their nature as assets or liabilities.

Thus eligible assets and eligible liabilities would be presented in the financial statements in a manner that provides information that is useful for assessing the following:

1. The entity's ability to generate cash in the future (the prospects for future net cash flows)
2. The nature and amounts of the entity's economic resources and claims against the entity
3. The entity's liquidity and solvency.

How Would the Main Proposals Affect U.S. GAAP and IFRSs?

The proposals would replace the requirements in U.S. GAAP for offsetting in general and the existing exceptions for derivatives and repurchase agreements and IFRSs for offsetting instruments within the scope of IAS 39, *Financial Instruments: Recognition and Measurement,* and would establish a common approach for presentation of such instruments.

In U.S. GAAP, a principle would be established that would preclude offsetting, unless specifically required or permitted by a specific Topic, similar to the principle that exists in IFRSs. The proposals would eliminate the exception in U.S. GAAP that allows offsetting for some derivative and sale and repurchase (and reverse sale and repurchase) contracts when the right of setoff is conditional, there is no intention to set off, or such intention is conditional. The proposal would also eliminate several industry-specific practices. It would also modify the offsetting criteria in IFRSs by clarifying that the right of setoff should not only be currently enforceable. The proposals would enhance disclosures required by U.S. GAAP and IFRSs by requiring improved information about eligible assets and eligible liabilities subject to setoff, and related arrangements (such as collateral agreements) and the effect of those arrangements on an entity's financial position.

When Would the Proposals Be Effective?

The Boards seek information about the time and effort that would be involved in implementing the proposed requirements. The Boards will use that information to determine an appropriate effective date. In addition, the Boards will consider the responses to the Discussion Paper, *Effective Dates and Transition Methods,* as well as the implementation plan for other planned new accounting and reporting standards in order to facilitate management of the pace and cost of change.

Questions for Respondents

The Boards invite comments on all matters in this Exposure Draft, in particular on the questions set out in the paragraphs below. Comments are most helpful if they:

1. Respond to the questions as stated
2. Indicate the specific paragraph(s) to which they relate
3. Contain a clear rationale
4. If applicable, provide a suggestion for alternative wording that the Boards should consider.

The Boards are not seeking comments on other aspects of the accounting for financial instruments through this Exposure Draft.

Comments should be submitted in writing so as to be received no later than April 28, 2011. Respondents should submit one comment letter to either the FASB or the IASB. The Boards will share and jointly consider all comment letters received.

Offsetting Criteria—Unconditional Right and Intention to Settle Net or Simultaneously

Question 1: The proposals would require an entity to offset a recognized eligible asset and a recognized eligible liability when the entity has an unconditional and legally enforceable right to setoff the eligible asset and eligible liability and intends either:

1. To settle the eligible asset and eligible liability on a net basis
2. To realize the eligible asset and settle the eligible liability simultaneously.

Do you agree with this proposed requirement? If not, why? What criteria would you propose instead and why?

Unconditional Right of Offset Must Be Enforceable in All Circumstances

Question 2: Under the proposals, eligible assets and eligible liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of setoff. The proposals specify that an unconditional and legally enforceable right of setoff is enforceable in all circumstances (that is, 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?

Multilateral Setoff Arrangements

Question 3: The proposals would require offsetting for both bilateral and multilateral setoff arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral setoff arrangements? If not, why? What would you propose instead, and why? What are some of the common situations in which a multilateral right of setoff may be present?

Disclosures

Question 4: 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?

Effective Date and Transition

Question 5: Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements and why? Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.

Proposed Guidance

Overview and Background

1. This guidance establishes a principle for offsetting in the financial statements as well as specific guidance for offsetting financial instruments and derivatives.

2. An entity shall not offset assets and liabilities unless specifically required or permitted.

Scope

3. This guidance shall be applied by all entities to all financial assets and derivative assets (hereinafter referred to as "eligible assets") and financial liabilities and derivative liabilities (hereinafter referred to as "eligible liabilities").

Objective

4. **This guidance establishes a principle for offsetting eligible assets and eligible liabilities, namely an entity shall offset a recognized eligible asset and a recognized eligible liability only if:**

   a. **On the basis of the rights and obligations associated with the eligible asset and eligible liability, the entity has a right to or obligation for only the net amount (that is, the entity has, in effect, a single net eligible asset or eligible liability).**
   b. **The amount, resulting from offsetting the eligible asset and eligible liability, reflects an entity's expected cash flows from settling two or more separate eligible instruments.**

5. **In all other circumstances, an entity presents recognized eligible assets and recognized eligible liabilities in the statement of financial position separately from each other, according to their nature as assets or liabilities. Eligible assets and eligible liabilities would be presented in the financial statements in a manner that provides information that is useful for assessing:**

   a. **The entity's ability to generate cash in the future (the prospects for future net cash flows)**
   b. **The nature and amounts of the entity's economic resources and claims against the entity**
   c. **The entity's liquidity and solvency.**

Offsetting of Eligible Assets and Eligible Liabilities

Presentation

6. **An entity shall offset a recognized eligible asset and a recognized eligible liability and shall present the net amount in the statement of financial position when the entity:**

- a. **Has an unconditional and legally enforceable right to set off the eligible asset and eligible liability; and**
- b. **Intends either:**
  1. **To settle the eligible asset and eligible liability on a net basis**
  2. **To realize the eligible asset and settle the eligible liability simultaneously.**

In all other circumstances, eligible assets and eligible liabilities are presented separately from each other according to their nature as assets or liabilities.

7. In accounting for a transfer of an eligible asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

8. An entity that undertakes a number of transactions with a single counterparty may enter into a master netting agreement with that counterparty. Such an agreement may provide for a single net settlement of all eligible assets and eligible liabilities covered by the agreement in the event of default on, or termination of, any one contract. Such a right is a conditional right of setoff and does not meet the criterion in paragraph 6(a). An entity shall not offset, in the statement of financial position, eligible assets, eligible liabilities, and amounts recognized as accrued receivables or payables, in respect of those assets and liabilities, on the basis of such rights of setoff.

9. An entity shall not offset, in the statement of financial position, assets pledged as collateral (or the right to reclaim the collateral) or the obligation to return collateral obtained and the associated eligible assets and eligible liabilities.

10. For the purposes of this proposed Update:

- a. *Offsetting* is the presentation of one or more eligible assets and eligible liabilities as a single net amount in the statement of financial position.
- b. A *right of setoff* is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount all or a portion of an amount due from the creditor or a third party.
- c. An *unconditional right of setoff* is a right of setoff, the exercisability of which is not contingent on the occurrence of a future event.

d. A *conditional right of setoff* is a right of setoff that can be exercised only on the occurrence of a future event.
e. A *legally enforceable right of setoff* is a right of setoff that is enforceable in all circumstances, that is enforceable both in the normal course of business and on the default, insolvency, or bankruptcy of one of the counterparties.
f. Realization of an eligible asset and settlement of an eligible liability are treated as simultaneous only when the transactions are executed at the same moment.

Disclosures

11. **An entity shall disclose information about rights of setoff and related arrangements (such as collateral agreements) associated with the entity's eligible assets and eligible liabilities to enable users of its financial statements to understand the effect of those rights and arrangements on the entity's financial position.**

12. To meet the requirements in paragraph 11, an entity shall disclose, at the minimum, the following information separately for eligible assets and eligible liabilities recognized at the end of the reporting period by class of financial instruments:

a. The gross amounts (before taking into account amounts offset in the statement of financial position and portfolio-level adjustments for the credit risk of each of the counterparties or the counterparties' net exposure to the credit risk of the entity)
b. Showing separately:
   1. The amounts offset in accordance with the criteria in paragraph 6 to determine the net amounts presented in the statement of financial position
   2. The portfolio-level adjustments made in the fair value measurement to reflect the effect of the entity's net exposure to the credit risk of counterparties or the counterparties' net exposure to the credit risk of the entity
   3. The net amount presented in the statement of financial position.
c. The amounts of eligible assets and eligible liabilities that the entity has an unconditional and legally enforceable right to setoff but that the entity does not intend to settle net or simultaneously
d. The amount of eligible assets and eligible liabilities that the entity has a conditional right to setoff, separately by each type of conditional right.
e. The net amount of eligible assets and eligible liabilities after taking into account the effect of the items in (a)–(d)
f. For cash or other financial instrument collateral, obtained or pledged in respect of the entity's eligible assets and eligible liabilities:
   1. The amount of cash collateral (excluding the amount of cash collateral in excess of the amount in (b)(3)), and

    2. The fair value of other financial instruments (excluding the portion of the fair value of such collateral that is in excess of the amount in (b)(3)).

g. The net amount of eligible assets and eligible liabilities (that is, the difference) after taking into account the effect of the items in (e)–(f).

The information required by this paragraph shall be presented in a tabular format unless another format is more appropriate.

13. An entity shall provide a description of each type of conditional right of setoff separately disclosed in accordance with paragraph 12(d), including the nature of those rights and how management determines each type.

14. If the information required by paragraphs 11–13 is disclosed in more than a single note to the financial statements, an entity shall cross-reference from the note in which the information in paragraph 12 is disclosed to the notes in which the information required by paragraphs 11 and 13 is disclosed.

15. An entity need not provide the information required by paragraphs 11–14 if, at the reporting date, the entity has no eligible assets and eligible liabilities that are subject to a right of setoff and the entity has neither obtained nor pledged cash or other financial instruments as collateral in respect of recognized eligible assets and recognized eligible liabilities.

Appendix A

Effective Date and Transition

A1. An entity shall apply this guidance for annual and interim periods beginning on or after [date to be inserted after exposure]. The guidance shall be applied retrospectively for all comparative periods.

Appendix B

B1. This appendix in the IASB Exposure Draft is not used in the FASB proposed Update.

Appendix C

Application Guidance

Offsetting of Eligible Assets and Eligible Liabilities (Paragraph 6)

Criteria

C1. The offsetting criteria in paragraph 6 include the following requirements:

a. An unconditional and legally enforceable right to set off the eligible asset and eligible liability
b. The intention either to settle the eligible asset and eligible liability on a net basis or to realize the eligible asset and settle the eligible liability simultaneously.

An arrangement does not qualify for offset if it lacks one of the requirements in paragraph 6 (for example, if an entity has an unconditional and a legally enforceable right of setoff but does not intend to settle the eligible asset and eligible liability net or to realize the asset and settle the liability simultaneously or vice versa).

Unconditional and Legally Enforceable Right of Setoff (Paragraph 6(a))

C2. A right of setoff is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount all or a portion of an amount due from the creditor or a third party. It is the right that one party has against another to use its asset (amount owed to it by a creditor or another party) in full or partial payment (or satisfaction) of what it owes the creditor.

C3. A right of setoff may be unconditional or conditional. Similarly, a right of setoff may be enforceable only in some circumstances or may be enforceable in all circumstances. However, to offset an eligible asset and an eligible liability in the statement of financial position, the entity's right of setoff must be both unconditional and legally enforceable in all circumstances.

C4. A conditional right of setoff is a right of setoff that can be exercised only on the occurrence of a future event. For example, an entity may have a right to set off recognized amounts, such as in a master netting agreement or in some forms of nonrecourse debt, but such a right may be enforceable or triggered only on the occurrence of some future event, usually the default of the counterparties or other credit-related events or on termination of the contracts. In some cases, an entity may have a right of setoff that is exercisable on changes to particular legislation or a change in control of the counterparties. Conditional rights of setoff such as these do not meet the offsetting criteria and, therefore, the eligible asset and eligible liability subject to such rights of setoff shall not be offset.

C5. A right of setoff may arise as a result of a provision in law (or a regulation), or it may arise as a result of a contract. Because the right of setoff is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another. Moreover, in particular cases, the laws of a jurisdiction about the right of setoff may provide results different from those normally provided by contract or as a matter of common law. Similarly, the bankruptcy or insolvency laws of a jurisdiction may impose restrictions on or prohibitions against the right of setoff in bankruptcy, insolvency, or similar events in some circumstances.

C6. Thus, whether an entity's right of setoff meets the legally enforceable right of setoff criterion will depend on the law governing the contract and the bankruptcy regime that govern the insolvency of the counterparties. Therefore, the laws applicable to the relationships between the parties (for example, contractual provisions, the law governing the contract, and the bankruptcy laws of the parties) need to be considered to ascertain whether the right of setoff is enforceable in all circumstances.

Intention to Settle on a Net Basis (Paragraph 6(b)(1))

C7. To offset an eligible asset and an eligible liability in the statement of financial position, an entity must have an intention to settle net or settle simultaneously the eligible asset and eligible liability. An entity's intention to settle net or settle simultaneously may be demonstrated through its past practice of executing setoff or simultaneous settlement in similar situations, its usual operating practices, or by reference to the entity's documented risk management policies. An entity's intentions with respect to settlement of particular assets and liabilities may, however, be influenced or restricted by its usual operating practices, industry practice, the requirements of the financial markets, and other circumstances that may affect the ability to settle net or settle simultaneously. The requirement for an intention to settle net or to settle simultaneously is assessed from the reporting entity's perspective.

C8. In practice, even though an entity has the right to settle net, it may settle gross because of lack of appropriate arrangements or systems to effect net settlement or to facilitate operations. If this is the case, the entity presents such assets and liabilities separately (that is, shall not offset the asset and liability) in the statement of financial position (except when the entity intends to settle the asset and the liability simultaneously).

C9. Some contracts and master netting agreements provide for automatic setoff of payments due to or from parties if they occur on the same day and are in the same currency. Also, in a centrally cleared financial market with a central counterparty, the rules of the clearing house typically provide for automatic netting and cancellation of offsetting contracts. For such contractual arrangements, the entity's intention is considered to have been demonstrated at the date of entering into the contracts.

Intention to Realize the Eligible Asset and Settle the Eligible Liability Simultaneously (Paragraph 6(b)(2))

C10. An entity's intention to settle simultaneously must be demonstrated, for example, through its past practice of executing simultaneous settlement in similar situations, by its normal operating practices, or by reference to the entity's documented risk management policies. Thus, incidental simultaneous settlement of an eligible asset and eligible liability does not meet the criteria in paragraph 6.

C11. Realization of an eligible asset and settlement of an eligible liability are simultaneous only if settlements take place at the same moment (that is, there is exposure to only the net or reduced amount). When this condition is met, the cash flows are, in effect, equivalent to a single net amount and the net amount also reflects the entity's expected cash flows from settling the separate eligible instruments. Thus, if the settlements take place over a period (even though during this period there is no potential for any change in the value of the eligible asset and eligible liability and the period between settlements of the instruments is brief), it is not simultaneous settlement because settlement is not at the same moment. Similarly, realization and settlement of an asset and a liability at the same stated time but in different time zones is not simultaneous settlement.

C12. Simultaneous settlement of two eligible instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. For example, in some centrally cleared financial markets with a central counterparty or in face-to-face exchanges, the rules of the exchange or clearing house may grant both the clearing house or the exchange and the members (or participants) a right to set off amounts due and payable to either party. The procedures of the clearing house or exchange may, in addition, provide that the amount to be paid or received for different products be settled gross. However, such payments may be made simultaneously. Therefore, even though the parties may make payment or receive payment separately for different product types, settlements occur at the same moment, and there is only exposure to the net amount.

Bilateral and Multilateral Setoff Arrangements (Paragraph 6)

C13. Generally, the right of setoff requires “mutuality” of parties (that is, the parties must be mutually indebted to each other) for it to be enforceable. However, a party may, by contract, no longer require mutuality and allow its asset to be made available to be set off against a third party’s liability. For example, A, B, and C agree that A may set off amounts owed by A to B against amounts owed to A by C. Therefore, in unusual circumstances a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor (that is, a tripartite arrangement). However, not all jurisdictions recognize this type of contractual setoff arrangement, particularly in bankruptcy scenarios. If the arrangement meets the criteria in paragraph 6, an entity shall offset the relevant eligible asset and eligible liability.

Collateral Obtained or Pledged in Respect of Eligible Assets and Eligible Liabilities

C14. Many financial instruments, such as interest rate swap contracts, futures contracts, and exchange-traded written options, require margin accounts. Margin accounts are a form of collateral for the counterparty or clearing house and may take the form of cash, securities or other specified assets, typically liquid assets. Margin accounts are assets or liabilities that are accounted for separately. Similarly, if an entity sells collateral pledged to it and thus recognizes an obligation to return the collateral sold, that obligation is a separate liability that is accounted for separately. An entity shall not offset, in the statement of financial position, recognized eligible assets and eligible liabilities with assets pledged as collateral or the right to reclaim collateral pledged or the obligation to return collateral sold.

Reassessment of Right of Setoff (Paragraph 6)

C15. A right of setoff that does not meet the unconditional right of setoff criterion would subsequently qualify as an unconditional right of setoff if the contingent event(s) occurs and that right of setoff no longer meets the definition of a conditional right of setoff in paragraph 10. However, a right of setoff that may be removed by a future event does not meet the unconditional right of setoff criterion in paragraph 6. Similarly, if the right to setoff a recognized eligible asset and eligible liability is exercisable only before a specific date, that right of setoff does not qualify as an unconditional right of setoff.

Disclosures (Paragraphs 11–15)

C16. Paragraph 12 requires an entity to disclose the required information by class of eligible assets and liabilities. An entity shall group eligible assets and eligible liabilities (separately) into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those eligible assets and liabilities and the applicable rights of setoff.

C17. Paragraph 12(d) requires disclosure of the portion of the net amount presented in the statement of financial position that is covered by each type of conditional and legally enforceable right of setoff. The disclosures required by paragraph 12(d) may be presented in the aggregate for similar types of rights of setoff if separate disclosure of each type of right of setoff would not provide more useful information to users of financial statements. An entity shall disclose the criteria it applies in aggregating similar rights of setoff. At a minimum, an entity shall distinguish between rights of setoff that are exercisable on default, bankruptcy, or insolvency (or similar events) and rights of setoff that are exercisable in the normal course of business. In determining whether to aggregate the disclosures in paragraph 12(d) for different types of rights of setoff, an entity shall consider the characteristics of those rights and the disclosure requirements in paragraph 12.

C18. Paragraph 12(f) restricts the amount of cash or other financial instrument collateral, to be disclosed in respect of the entity's eligible assets and eligible liabilities, to the amounts of the eligible asset or eligible liability, as presented in the statement of financial position. An aggregate disclosure of the amount of cash or the fair value of other financial instrument collateral would not provide meaningful information about the effect of collateral arrangements on the entity's financial position if account is not taken of overcollateralization of eligible assets or undercollateralization of eligible liabilities and vice versa.

C19. The specific disclosures required by paragraphs 12 and 13 are minimum requirements, and an entity may need to supplement them depending on the nature of the rights of setoff and related arrangements and their effect on the entity's financial position. Disclosures required by other Topics may be considered in determining whether additional information needs to be disclosed to meet the requirements in paragraph 11.

C20. An entity shall present the disclosures in a manner that clearly and fully explains to users of the financial statements the nature of rights of setoff and related arrangements and their effect on the entity's eligible assets and eligible liabilities. An entity shall determine how much detail it must provide to satisfy the disclosure requirements of this guidance. The entity must strike a balance between obscuring important information as a result of too much aggregation and excessive detail that may not help users of financial statements to understand the entity's financial position. For example, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of rights of setoff or related arrangements.

Illustrative Examples

Disclosures (Paragraph 12)

IE1. The following examples illustrate some (but not all) possible ways to meet the quantitative disclosure requirements in paragraph 12. However, these illustrations do not address all possible ways of applying the disclosure requirements of the guidance.

Financial Assets Subject to Offsetting and Related Arrangements

CU Million									
As of December 31 20XX	**(i)**	**(ii)**	**(iii)=(i)-(ii)***	**(iv)**	**(v)**	**(vi)=(iii)-(iv)-(v)**	**(vii) Collateral Pledged**		**(viii)**
	Gross Amount of Assets	**Gross Amount of Liabilities Offset Against Assets in the Statement of Financial Position**	**Net Amount of Assets in the Statement of Financial Position**	**Gross Amount of Liabilities Subject to Conditional Rights of Setoff**	**Gross Amount of Liabilities Subject to an Unconditional and Legally Enforceable Right of Setoff but the Entity Does Not Intend to Settle Net or Simultaneously**	**Net Amount of Assets Before Deducting Collateral**	Cash	Fair Value of Other Financial Instruments Received as Collateral	**Net Exposure**
Description									
Exchange Traded Financial Instruments	X	X	X	X	X	X	X	X	X
OTC Derivatives, Repurchase and Stock Borrowing Agreements and Similar Financial Instruments	X	X	X	X	X	X	X	X	X
Other Financial Instruments	X	X	X	X	X	X	X	X	X
Financial Assets at Fair Value Through Profit or Loss	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X
Financial Assets at Amortized Cost	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X

*Assumes the entity has not made portfolio-level adjustments in the fair value measurement of derivatives.

Financial Liabilities Subject to Offsetting and Related Arrangements

CU Million									
As of December 31 20XX	**(i)**	**(ii)**	**(iii)=(i)-(ii)***	**(iv)**	**(v)**	**(vi)=(iii)-(iv)-(v)**	**(vii) Collateral Pledged**		**(viii)**
	Gross Amount of Liabilities	**Gross Amount of Assets Offset Against Liabilities in the Statement of Financial Position**	**Net Amount of Liabilities in the Statement of Financial Position**	**Gross Amount of Assets Subject to Conditional Rights of Setoff**	**Gross Amount of Assets Subject to an Unconditional and Legally Enforceable Right of Setoff but the Entity Does Not Intend to Settle Net or Simultaneously**	**Net Amount of Liabilities Before Deducting Collateral**	Cash	Fair Value of Other Financial Instruments Pledged as Collateral	**Net Exposure**
Description									
Exchange Traded Financial Instruments	X	X	X	X	X	X	X	X	X
OTC Derivatives, Repurchase and Stock Borrowing Agreements and Similar Financial Instruments	X	X	X	X	X	X	X	X	X
Other Financial Instruments	X	X	X	X	X	X	X	X	X
Financial Liabilities at Fair Value Through Profit or Loss	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X
Financial Liabilities at Amortized Cost	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X

*Assumes the entity has not made portfolio-level adjustments in the fair value measurement of derivatives.

Appendix D

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Overview and Background (210-20-05)	Amended the overall principle related to netting on the balance sheet.
Scope and Scope Exceptions (210-20-15)	No significant amendments.
Other Presentation Matters (210-20-45)	Amended the specific requirements for offset of derivatives, financial assets, and financial liabilities.
Disclosure (210-20-50)	Added disclosures related to the offsetting of derivatives, financial assets, and financial liabilities.
Implementation Guidance and Illustrations (210-20-55)	Added implementation guidance and examples related to offsetting of derivatives, financial assets, and financial liabilities. Also, provided an implementation example of proposed disclosures.

Codification Section	Description of Changes
Conforming Amendments (815-10-45, 815-10-50, 825-10-45, 860-30-60, 910-405-45, 940-320-45, 942-305-45)	Amendments made to the following Sections to reference the proposed guidance on offsetting as well as the disclosure requirements.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–24. In some cases, to put the changes in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Add the following new Master Glossary terms to Subtopic 210-20, with a link to transition paragraph 210-20-65-1, as follows:

<u>**Conditional Right of Setoff**</u>

<u>A right of setoff that can be exercised only on the occurrence of a future event.</u>

<u>**Legally Enforceable Right of Setoff**</u>

<u>A right of setoff that is legally enforceable in all circumstances, that is, enforceable both in the normal course of business and on the default, insolvency, or bankruptcy of one of the counterparties.</u>

<u>**Offsetting**</u>

<u>The presentation of one or more assets and liabilities as a single net amount in the statement of financial position.</u>

<u>**Simultaneous Settlement**</u>

<u>The realization of an asset and settlement of a liability when the settlements are executed at the same moment.</u>

Unconditional Right of Setoff

A right of setoff, the exercisability of which is not contingent on the occurrence of a future event.

4. Supersede the following Master Glossary terms, with a link to transition paragraph 210-20-65-1, as follows:

~~Daylight Overdraft~~

~~Daylight overdraft or other intraday credit refers to the accommodation in the banking arrangements that allows transactions to be completed even if there is insufficient cash on deposit during the day provided there is sufficient cash to cover the net cash requirement at the end of the day. That accommodation may be through a credit facility, including a credit facility for which a fee is charged, or from a deposit of collateral.~~

~~Securities Custodian~~

~~The securities custodian for a securities transfer system may be the bank or financial institution that executes securities transfers over the securities transfer system, and book entry securities exist only in electronic form on the records of the transfer system operator for each entity that has a security account with the transfer system operator.~~

5. Amend the Master Glossary term *Right of setoff,* with a link to transition paragraph 210-20-65-1, as follows:

Right of Setoff

~~A right of setoff is a~~A debtor's legal right, by contract or otherwise, to ~~discharge~~settle or otherwise eliminate all or a portion of an amount due to a creditor~~the debt owed to another party~~ by applying against ~~the debt an~~that amount ~~that the other party owes to the debtor.~~all or a portion of an amount due from the creditor or a third party.

Amendments to Subtopic 210-20

6. Amend paragraphs 210-20-05-1 through 05-2 and add paragraph 210-20-05-2A, with a link to transition paragraph 210-20-65-1, as follows:

Balance Sheet—Offsetting

Overview and Background

210-20-05-1 This Subtopic provides criteria for offsetting amounts related to certain contracts and provides guidance on presentation. It is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except if ~~a **right of setoff** exists.~~specifically required or permitted.

210-20-05-2 ~~The general principle that the offsetting of assets and liabilities is improper except where a right of setoff exists is usually thought of in the context of unconditional receivables from and payables to another party. That general principle also applies to conditional amounts recognized for contracts under which the amounts to be received or paid or items to be exchanged in the future depend on future interest rates, future exchange rates, future commodity prices, or other factors.~~An entity shall offset a recognized financial asset or derivative asset and financial liability or derivative liability only if:

a. On the basis of the rights and obligations associated with the financial or derivative asset and financial or derivative liability, the entity has a right to or obligation for the net amount (that is, the entity has, in effect, a single net financial or derivative asset or financial or derivative liability).
b. The amount, resulting from offsetting the financial or derivative asset and financial or derivative liability, reflects and entity's expected future cash flow from settling two or more separate instruments.

210-20-05-2A In all other circumstances, an entity presents a recognized financial or derivative asset and financial or derivative liability in the statement of financial position separately from each other, according to their nature as an asset or a liability. Financial and derivative assets and financial and derivative liabilities would be presented in the financial statements in a manner that provides information that is useful for assessing all of the following:

a. The entity's ability to generate cash in the future (the prospects for future net cash flows)
b. The nature and amounts of the entity's economic resources and claims against the entity
c. The entity's liquidity
d. The entity's solvency.

7. Supersede paragraph 210-20-05-3 and its related heading, with a link to transition paragraph 210-20-65-1, as follows:

~~> **Repurchase and Reverse Repurchase Agreements**~~

210-20-05-3 Paragraph superseded by Accounting Standards Update 2011-XX. ~~As defined, **repurchase agreements** and **reverse repurchase agreements** represent collateralized borrowing and lending transactions. These transactions may involve a master netting agreement between the parties. This Subtopic addresses offsetting for such borrowing and lending transactions.~~

8. Amend paragraph 210-20-15-3, with a link to transition paragraph 210-20-65-1, as follows:

Scope and Scope Exceptions

> Other Considerations

210-20-15-3 ~~The general principle of a **right of setoff** involves only two parties, and exceptions to that general principle shall be limited to practices specifically permitted by the Subtopics listed in this paragraph.~~ Various accounting Subtopics specify accounting treatments in circumstances that result in offsetting or in a presentation in a statement of financial position that is similar to the effect of offsetting. The guidance in this Subtopic does not modify the accounting treatment in the particular circumstances prescribed by any of the following Subtopics:

a. Paragraphs 840-30-35-32 through 35-52 (leveraged leases)
b. Subtopic 715-30 (accounting for pension plan assets and liabilities)
c. Subtopic 715-60 (accounting for plan assets and liabilities)
d. Subtopic 740-30 (net tax asset or liability amounts ~~reported)~~reported).
e. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~Subtopics 940-320 (trade date accounting for trading portfolio positions) and 910-405 (advances received on construction contracts)~~
f. Subparagraph superseded by Accounting Standards Update 2011-XX. ~~Paragraph 942-305-45-1 (reciprocal balances with other banks).~~

9. Supersede paragraphs 210-20-45-1 through 45-5, with a link to transition paragraph 210-20-65-1, as follows:

Other Presentation Matters

210-20-45-1 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A **right of setoff** exists when all of the following conditions are met:~~

~~a. Each of two parties owes the other determinable amounts.~~
~~b. The reporting party has the right to set off the amount owed with the amount owed by the other party.~~
~~c. The reporting party intends to set off.~~
~~d. The right of setoff is enforceable at law.~~

210-20-45-2 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A debtor having a valid right of setoff may offset the related asset and liability and report the net amount.~~

210-20-45-3 Paragraph superseded by Accounting Standards Update 2011-XX. ~~If the parties meet the criteria specified in paragraph 210-20-45-1, specifying~~

~~currency or interest rate requirements is unnecessary. However, if maturities differ, only the party with the nearer maturity could offset because the party with the longer term maturity must settle in the manner that the other party selects at the earlier maturity date.~~

210-20-45-4 Paragraph superseded by Accounting Standards Update 2011-XX. ~~If a party does not intend to set off even though the ability to set off exists, an offsetting presentation in the statement of financial position is not representationally faithful.~~

210-20-45-5 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Acknowledgment of the intent to set off by the reporting party and, if applicable, demonstration of the execution of the setoff in similar situations meet the criterion of intent.~~

10. Add paragraphs 210-20-45-5A through 45-5F, with a link to transition paragraph 210-20-65-1, as follows:

210-20-45-5A Paragraphs 210-20-45-5B through 45-5D shall be applied to all financial instruments and derivatives.

210-20-45-5B An entity shall offset a recognized asset and a recognized liability and shall present the net amount in the statement of financial position if, and only if, the entity:

a. The entity has an unconditional and legally enforceable right to set off the asset and liability.
b. The entity intends to do either of the following:
    1. To settle the asset and liability on a net basis
    2. To realize the asset and settle the liability simultaneously.

210-20-45-5C In all other circumstances, financial or derivative assets and financial or derivative liabilities are presented separately from each other according to their nature as assets or liabilities.

210-20-45-5D In accounting for a transfer of an asset that does not qualify for derecognition, an entity shall not offset the transferred asset and the associated liability.

210-20-45-5E An entity that undertakes a number of transactions with a single counterparty may enter into a *master netting agreement* with that counterparty. Such an agreement may provide for a single net settlement of all financial instruments and derivatives covered by the agreement in the event of default on, or termination of, any one contract. Such a right is a **conditional right of setoff** and does not meet the criterion in paragraph 210-20-45-5B(a). An entity shall not offset, in the statement of financial position, financial or derivative assets, financial or derivative liabilities and amounts recognized as accrued receivables or payables, in respect of those assets and liabilities, on the basis of such **rights of setoff**.

210-20-45-5F An entity shall not offset, in the statement of financial position, assets pledged as collateral (or the right to reclaim the collateral) or the obligation to return collateral obtained and the associated assets and liabilities.

11. Supersede paragraphs 210-20-45-11 through 45-17 and the related headings, with a link to transition paragraph 210-20-65-1, as follows:

~~**> Repurchase and Reverse Repurchase Agreements**~~

210-20-45-11 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Notwithstanding the condition in paragraph 210-20-45-1(c), an entity may, but is not required to, offset amounts recognized as payables under repurchase agreements and amounts recognized as receivables under reverse repurchase agreements if all of the following conditions are met:~~

- ~~a. The repurchase and reverse repurchase agreements are executed with the same counterparty.~~
- ~~b. The repurchase and reverse repurchase agreements have the same explicit settlement date specified at the inception of the agreement.~~
- ~~c. The repurchase and reverse repurchase agreements are executed in accordance with a master netting arrangement.~~
- ~~d. The securities underlying the repurchase and reverse repurchase agreements exist in book entry form and can be transferred only by means of entries in the records of the transfer system operator or **securities custodian**. Book entry securities meeting the criterion in this paragraph exist only as items in accounting records maintained by a transfer system operator. This requirement does not preclude offsetting of securities held in book entry form solely because other securities of the same issue exist in other forms.~~
- ~~e. The repurchase and reverse repurchase agreements will be settled on a securities transfer system that operates in the manner described in paragraphs 210-20-45-14 through 45-17, and the entity must have associated banking arrangements in place as described in those paragraphs. Cash settlements for securities transferred shall be made under established banking arrangements that provide that the entity will need available cash on deposit only for any net amounts that are due at the end of the business day. It must be probable that the associated banking arrangements will provide sufficient **daylight overdraft** or other intraday credit at the settlement date for each of the parties. The term *probable* is used in this Subtopic consistent with its use in paragraph 450-20-25-1 to mean that a transaction or event is likely to occur.~~
- ~~f. The entity intends to use the same account at the clearing bank or other financial institution at the settlement date in transacting both the cash inflows resulting from the settlement of the **reverse repurchase agreement** and the cash outflows in settlement of the offsetting **repurchase agreement**.~~

210-20-45-12 Paragraph superseded by Accounting Standards Update 2011-XX. ~~The entity's choice to offset or not shall be applied consistently. Net receivables resulting from the application of this Subtopic shall not be offset against net payables resulting from the application of this Subtopic in the statement of financial position.~~

210-20-45-13 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Paragraph 210-20-45-11 does not apply to amounts recognized for other types of repurchase and reverse repurchase agreements executed under a master netting arrangement; however, those amounts could otherwise meet the conditions of paragraph 210-20-45-1 for a right of setoff. Therefore, unless all conditions in that paragraph are met, the amount recognized under a repurchase agreement that does not settle in accordance with all the conditions of paragraphs 210–20–45–11 through 45–17 may not be offset against the amount recognized under a reverse repurchase agreement merely because the agreements are executed with the same counterparty under a master netting arrangement. The gross unconditional receivables and payables recognized in the statement of financial position related to those types of repurchase and reverse repurchase agreements provide useful information about the timing and amount of future cash flows that would be lost if those amounts were offset.~~

~~> Securities Transfer System~~

210-20-45-14 Paragraph superseded by Accounting Standards Update 2011-XX. ~~This guidance describes a securities transfer system for repurchase agreements and reverse repurchase agreements (and associated banking arrangements) that meets the requirements of paragraph 210-20-45-11. In a securities transfer system for repurchase agreements and reverse repurchase agreements that meets the requirements of that paragraph, cash transfers are initiated by notification from the owner of record of the securities to its securities custodian to transfer those securities to the counterparty to the agreement. The securities custodian for a securities transfer system may be the bank or financial institution that executes securities transfers over the securities transfer system, and book entry securities exist only in electronic form on the records of the transfer system operator for each entity that has a security account with the transfer system operator. Book entry securities exist only as items of account on the controlling records of the transfer system operator. Banks or other financial institutions may maintain subsidiary records of book entry securities. Book entry securities may be transferred on the subsidiary records of a bank or financial institution but, for entities that have a security account with the transfer system operator, may be transferred from the account of such an entity only through the transfer system operator.~~

210-20-45-15 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Under associated banking arrangements, each party to a same-day settlement of both a repurchase agreement and a reverse repurchase agreement would be obligated to pay a gross amount of cash for the securities transferred from its~~

~~counterparty but would be able to reduce that gross obligation by notifying its securities custodian to transfer other securities to that counterparty the same day.~~

210-20-45-16 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Thus, each party is responsible for maintaining available cash on deposit only for the amount of any net payable unless it fails to instruct its securities custodian to transfer securities to its counterparty. Failure by either party to instruct its securities custodian to transfer securities owned of record would result in that party's failing to receive cash from the counterparty and, thereby, would require that party to have available cash on deposit for the gross payable due for securities transferred to it. The failure also shall be an event of default under the master netting arrangement required by paragraph 210-20-45-11. The event of default, in turn, shall entitle the other party to terminate the arrangement and demand the immediate net settlement of all contracts.~~

210-20-45-17 Paragraph superseded by Accounting Standards Update 2011-XX. ~~If both parties transfer the appropriate securities in settlement of the repurchase and reverse repurchase agreements, the party with a net receivable will not need any cash to facilitate the settlement, while the party with a net payable will need only to have available the required net amount due at the end of the business day.~~

12. Add paragraphs 210-20-50-1 through 50-6 and their related headings, with a link to transition paragraph 210-20-65-1, as follows:

Disclosure

General

> Offsetting of Derivatives, Financial Assets, and Financial Liabilities

210-20-50-1 An entity shall disclose information about **rights of setoff** and related arrangements (such as collateral agreements) associated with the entity's derivative and financial assets, and derivative and financial liabilities to enable users of its financial statements to understand the effect of those rights and arrangements on the entity's financial position.

210-20-50-2 To meet the requirements in the preceding paragraph, an entity shall disclose, at the minimum, the following information separately for financial assets and other derivative assets and for financial liabilities and other derivative liabilities recognized at the end of the reporting period by class:

a. The gross amounts (before taking into account amounts offset in the statement of financial position and portfolio-level adjustments for the credit risk of each of the counterparties or the counterparties' net exposure to the credit risk of the entity).

b. Shown separately:
    1. The amounts offset in accordance with the criteria in paragraph 210-20-45-5B to determine the net amounts presented in the statement of financial position
    2. The portfolio-level adjustments made in the fair value measurement to reflect the effect of the entity's net exposure to the credit risk of counterparties or the counterparties' net exposure to the credit risk of the entity
    3. The net amount presented in the statement of financial position.
c. The amounts of financial assets and derivative assets, and of financial liabilities and derivative liabilities that the entity has an unconditional and legally enforceable right to setoff but that the entity does not intend to settle net or simultaneously.
d. The amount of financial assets and derivative assets, and financial liabilities and derivative liabilities that the entity has a conditional right to setoff, separately by each type of conditional right.
e. The net amount of financial assets and derivative assets, and financial liabilities and derivative liabilities after taking into account the effect of the items in (a)–(d).
f. For cash or other financial instrument collateral obtained or pledged in respect of the entity's financial or derivative assets and financial or derivative liabilities:
    1. The amount of cash collateral (excluding the amount of cash collateral in excess of the amount in b(3)).
    2. The fair value of other financial instruments (excluding the portion of the fair value in excess of the amount in b(3)).
g. The net amount of financial assets and derivative assets and financial liabilities and derivative liabilities (that is, the difference) after taking into account the effect of the items in (e)–(f).

210-20-50-3 The information required by the preceding paragraph shall be presented in a tabular format, unless another format is more appropriate.

210-20-50-4 An entity shall provide a description of each type of conditional right of setoff separately disclosed in accordance with paragraph 210-20-50-2(d), including:

a. The nature of those rights
b. How management determines each type.

210-20-50-5 If the information required by paragraphs 210-20-50-1 through 50-4 is disclosed in more than a single note to the financial statements, an entity shall cross-reference from the note in which the information in paragraph 210-20-50-2 is disclosed to the notes in which the information required by paragraphs 210-20-50-1 and 210-20-50-3 is disclosed.

210-20-50-6 An entity need not provide the information required by paragraph 210-20-50-2 if, at the reporting date, the entity has no financial or derivative assets and financial or derivative liabilities that are subject to a right of setoff and the entity has neither obtained nor pledged cash or other financial instruments as collateral in respect of recognized financial or derivative assets and recognized financial or derivative liabilities.

13. Add paragraphs 210-20-55-1 through 55-21 and their related headings, with a link to transition paragraph 210-20-65-1, as follows:

Implementation Guidance and Illustrations

General

> Implementation Guidance

> > Offsetting of Derivatives, Financial Assets, and Financial Liabilities: Offset Criteria

210-20-55-1 The **offsetting** criteria in paragraph 210-20-45-5B include the following requirements:

a. An unconditional and legally enforceable right to set off the financial or derivative asset and financial or derivative liability
b. Intention to do either of the following:
    1. To settle the financial or derivative asset and the financial or derivative liability on a net basis
    2. To realize the financial or derivate asset and settle the financial or derivative liability simultaneously.

210-20-55-2 An arrangement does not qualify for offset if it lacks one or both of those requirements (for example, if an entity has an unconditional and **legally enforceable right of setoff** but does not intend to settle the financial or derivative asset and financial or derivative liability net or to realize the asset and settle the liability simultaneously).

> > Unconditional and Legally Enforceable Right of Setoff

210-20-55-3 A **right of setoff** may be unconditional or conditional. Similarly, a right of setoff may be enforceable only in specified circumstances or may be enforceable in all circumstances. However, to offset a financial or derivative asset and a financial or derivative liability, the entity's right of setoff must be both unconditional and legally enforceable in all circumstances.

210-20-55-4 A **conditional right of setoff** can be exercised only on the occurrence of a future event. For example, an entity may have a right to set off recognized amounts, such as in a master netting agreement or in some forms of nonrecourse debt, but such a right may be enforceable or triggered only on the occurrence of some future event, usually the default of the counterparties or other credit-related events or on termination of the contracts. In some cases, an entity may have a right of setoff that is exercisable on changes to particular legislation or a change in control of the counterparties. Conditional rights of setoff such as these do not meet the offsetting criteria; therefore, the financial or derivative asset and financial or derivative liability subject to such rights of setoff should not be offset.

210-20-55-5 A right of setoff may arise as a result of a provision in law (or a regulation), or it may arise as a result of a contract. Because the right of setoff is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another. Moreover, in particular cases, the laws of a jurisdiction about the right of setoff may provide results different from those normally provided by contract or as a matter of common law. Similarly, the bankruptcy or insolvency laws of a jurisdiction may impose restrictions on or prohibitions against the right of setoff in bankruptcy, insolvency, or similar events in some circumstances.

210-20-55-6 Thus, whether an entity's right of setoff meets the legally enforceable right of setoff criterion will depend on the law governing the contract and the bankruptcy regime that governs the insolvency of the counterparties. Therefore, the laws applicable to the relationships between the parties (that is contractual provisions, the law governing the contract, and the bankruptcy laws of the parties) need to be considered to ascertain whether the right of setoff is enforceable in all circumstances.

> > Intention to Settle on a Net Basis

210-20-55-7 To offset a financial or derivative asset and a financial or derivative liability in the statement of financial position, in accordance with paragraph 210-20-45-5B, an entity must have an intention to settle net or settle simultaneously the asset and liability. An entity's intention to settle net or settle simultaneously may be demonstrated through its past practice of executing setoff or **simultaneous settlement** in similar situations, its usual operating practices, or by reference to the entity's documented risk management policies. An entity's intentions with respect to settlement of particular assets and liabilities may, however, be influenced or restricted by:

a. Its usual operating practices
b. Industry practice
c. The requirements of the financial markets
d. Other circumstances that may affect the ability to settle net or to settle simultaneously.

The requirement for an intention to settle net or to settle simultaneously is assessed only from the reporting entity's perspective.

210-20-55-8 In practice, although an entity has the right to settle net, it may settle gross because of lack of appropriate arrangements or systems to effect net settlement or to facilitate operations. If this is the case, the entity presents such assets and liabilities separately (that is, it should not offset the asset and liability) in the statement of financial position (except when the entity intends to settle the asset and the liability simultaneously).

210-20-55-9 Some contracts and master netting agreements provide for automatic setoff of payments due to or from the parties if they occur on the same day and are in the same currency. Also, in a centrally cleared financial market with a central counterparty, the rules of the clearing house typically provide for automatic netting and cancellation of offsetting contracts. For such contractual arrangements, the entity's intention is considered to have been demonstrated at the date of entering into the contracts.

> > Intention to Settle Simultaneously

210-20-55-10 An entity's intention to settle simultaneously must be demonstrated, for example:

a. Through its past practice of executing simultaneous settlement in similar situations
b. By its normal operating practices
c. By reference to the entity's documented risk management policies.

Thus, incidental simultaneous settlement of a financial or derivative asset and a financial or derivative liability does not meet the criteria in paragraph 210-20-45-5B.

210-20-55-11 Realization of a financial or derivative asset and settlement of a financial or derivative liability are simultaneous only if settlements take place at the same moment (that is, there is exposure to only the net or reduced amount). When this condition is met, the cash flows are, in effect, equivalent to a single net amount, and the net amount also reflects the entity's expected future cash flows from settling the separate instruments. Thus, if settlements take place over a period (even though during this period there is no potential for any change in the value of the financial or derivative asset and financial or derivative liability and the period between settlements of the instruments is brief), it is not simultaneous settlement because settlement is not at the same moment. Similarly, realization and settlement of an asset and a liability at the same stated time but in different time zones is not simultaneous settlement.

210-20-55-12 Simultaneous settlement of two instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. For example, in some centrally cleared financial markets with a central counterparty or in face-to-face exchanges, the rules of the exchange or clearing house may grant both the clearing house or the exchange and the members (or participants) a right to set off amounts due and payable to either party. The procedures of the clearing house or exchange may, in addition, provide that the amount to be paid or received for different products be settled gross. However, these payments may be made simultaneously. Therefore, although the parties may make payment or receive payment separately for different product types, settlements occur at the same moment and there is only exposure to net amount.

> > Bilateral and Multilateral Setoff Arrangements

210-20-55-13 Generally, the right of setoff requires "mutuality" of parties (that is, the parties must be mutually indebted to each other) for the right of setoff to be enforceable. However, a party, by contract, no longer require mutuality and allow its asset to be made available to be set off against a third party's liability. For example, A, B, and C agree that A may set off amounts owed by A to B against amounts owed to A by C. Therefore, in unusual circumstances a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor (a tripartite arrangement). However, not all jurisdictions recognize this kind of contractual setoff arrangement, particularly, in bankruptcy scenarios. To the extent that the arrangement meets the conditions in paragraph 210-20-45-5B, an entity should offset the relevant financial or derivative asset and financial or derivative liability.

> > Collateral Obtained or Pledged in Respect of Financial or Derivative Assets and Financial or Derivative Liabilities

210-20-55-14 Many financial instruments, such as interest rate swap contracts, futures contracts, and exchange-traded written options, require margin accounts. Margin accounts are a form of collateral for the counterparty or clearing house and may take the form of cash, securities, or other specified assets, typically liquid assets. Margin accounts are separate assets or liabilities that are accounted for separately. Similarly, if an entity sells collateral pledged to it and thus recognizes an obligation to return the collateral sold, that obligation is a separate liability that is accounted for separately. An entity should not offset, in the statement of financial position, recognized financial or derivative assets and financial or derivative liabilities with assets pledged as collateral or the right to reclaim collateral pledged or the obligation to return collateral sold.

> > Reassessment of Right of Setoff

210-20-55-15 A right of setoff that does not meet the **unconditional right of setoff** criterion would subsequently qualify as an unconditional right of setoff if the contingent event or events occur and that right of setoff no longer meets the definition of a conditional right of setoff. However, a right of setoff that may be removed by a future event does not meet the unconditional right of setoff criterion in paragraph 210-20-45-5B. Similarly, if the right to setoff a recognized financial or derivative asset and a financial or derivative liability is only exercisable before a specific date, that right of setoff does not qualify as an unconditional right of setoff.

> > Disclosures

210-20-55-16 Paragraph 210-20-50-2 requires an entity to disclose the required information by class of instruments. An entity should group financial assets and derivative assets and financial liabilities and derivative liabilities (separately) into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those instruments.

210-20-55-17 Paragraph 210-20-50-2(d) requires disclosure of the portion of the net amount presented in the statement of financial position that is covered by each type of conditional and legally enforceable right of setoff. The disclosures required by paragraph 210-20-50-2(d) may be presented in the aggregate for similar types of rights of setoff if separate disclosure of each type of right of setoff would not provide more useful information to users of financial statements. An entity should disclose the criteria it applies in aggregating similar rights of setoff. At a minimum, an entity should distinguish between rights of setoff that are exercisable on default, bankruptcy, or insolvency (or similar events) and rights of setoff that are exercisable in the normal course of business. In determining whether to aggregate the disclosures in paragraph 210-20-50-2(c) for different types of rights of setoff, an entity should consider the characteristics of those rights and the disclosure requirements in paragraph 210-20-50-2.

210-20-55-18 Paragraph 210-20-50-2(e) restricts the amount of cash or other financial instrument collateral to be disclosed in respect of the entity's financial assets and derivative assets and financial liabilities and derivative liabilities to the amounts of the financial or derivative asset or financial or derivative liability as reported in the statement of financial position. An aggregate disclosure of the amount of cash or the fair value of other financial instrument collateral would not provide meaningful information about the effect of collateral arrangements on the entity's financial position if, for example, account is not taken of overcollateralization of financial assets and derivative assets or undercollateralization of financial liabilities and derivative liabilities and vice versa.

210-20-55-19 The specific disclosures required by paragraphs 210-20-50-1 through 50-3 are minimum requirements, and an entity may need to supplement them depending on the nature of the rights of setoff and related arrangements and their effect on the entity's financial position. Disclosures required by other Topics may be considered in determining whether additional information needs to be disclosed to meet the requirements in paragraph 210-20-50-1.

210-20-55-20 An entity shall present the disclosures in a manner that clearly and fully explains to users of financial statements the nature of rights of setoff and related arrangements and their effect on the entity's financial assets and financial liabilities. An entity should determine how much detail it must provide to satisfy the disclosure requirements. The entity must strike a balance between obscuring important information because of too much aggregation and obscuring important information because of excessive detail that may not help users of financial statements to understand the entity's financial position. For example, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of rights of setoff or related arrangements.

210-20-55-21 The following examples illustrate some (but not all) possible ways to meet the quantitative disclosure requirements in paragraphs 210-20-50-1 through 50-6.

Financial Assets Subject to Offsetting and Related Arrangements

CU Million									
As of December 31 20XX	**(i)**	**(ii)**	**(iii)=(i)-(ii)***	**(iv)**	**(v)**	**(vi)=(iii)-(iv)-(v)**	**(vii) Collateral Pledged**		**(viii)**
	Gross Amount of Assets	**Gross Amount of Liabilities Offset Against Assets in the Statement of Financial Position**	**Net Amount of Assets in the Statement of Financial Position**	**Gross Amount of Liabilities Subject to Conditional Rights of Setoff**	**Gross Amount of Liabilities Subject to an Unconditional and Legally Enforceable Right of Setoff but the Entity Does Not Intend to Settle Net or Simultaneously**	**Net Amount of Assets Before Deducting Collateral**	Cash	Fair Value of Other Financial Instruments Received as Collateral	**Net Exposure**
Description									
Exchange Traded Financial Instruments	X	X	X	X	X	X	X	X	X
OTC Derivatives, Repurchase and Stock Borrowing Agreements and Similar Financial Instruments	X	X	X	X	X	X	X	X	X
Other Financial Instruments	X	X	X	X	X	X	X	X	X
Financial Assets at Fair Value Through Profit or Loss	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X
Financial Assets at Amortized Cost	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X

*Assumes the entity has not made portfolio-level adjustments in the fair value measurement of derivatives.

Financial Liabilities Subject to Offsetting and Related Arrangements

CU Million									
As of December 31 20XX	**(i)**	**(ii)**	**(iii)=(i)-(ii)***	**(iv)**	**(v)**	**(vi)=(iii)-(iv)-(v)**	**(vii) Collateral Pledged**		**(viii)**
	Gross Amount of Liabilities	**Gross Amount of Assets Offset Against Liabilities in the Statement of Financial Position**	**Net Amount of Liabilities in the Statement of Financial Position**	**Gross Amount of Assets Subject to Conditional Rights of Setoff**	**Gross Amount of Assets Subject to an Unconditional and Legally Enforceable Right of Setoff but the Entity Does Not Intend to Settle Net or Simultaneously**	**Net Amount of Liabilities Before Deducting Collateral**	Cash	Fair Value of Other Financial Instruments Pledged as Collateral	**Net Exposure**
Description									
Exchange Traded Financial Instruments	X	X	X	X	X	X	X	X	X
OTC Derivatives, Repurchase and Stock Borrowing Agreements and Similar Financial Instruments	X	X	X	X	X	X	X	X	X
Other Financial Instruments	X	X	X	X	X	X	X	X	X
Financial Liabilities at Fair Value Through Profit or Loss	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X
Financial Liabilities at Amortized Cost	X	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X	X

*Assumes the entity has not made portfolio-level adjustments in the fair value measurement of derivatives.

14. Add paragraph 210-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2011-XX, *Balance Sheet (Topic 210)*: *Offsetting*

210-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2011-XX, *Balance Sheet (Topic 210): Offsetting*:

a. The pending content that links to this paragraph shall be effective for fiscal years and interim periods beginning on or after [date to be inserted after exposure].
b. The presentation and disclosure principles that link to this paragraph shall be applied retrospectively for any period presented that begins before the date of initial application of the guidance.

Amendments to Subtopic 815-10

15. Supersede paragraph 815-10-45-3, with a link to transition paragraph 210-20-65-1, as follows:

Derivatives and Hedging—Overall

Other Presentation Matters

815-10-45-3 Paragraph superseded by Accounting Standards Update 2011-XX. ~~The following guidance addresses offsetting certain amounts related to derivative instruments. For purposes of this guidance, derivative instruments include those that meet the definition of a derivative instrument but are not included in the scope of this Subtopic.~~

16. Amend paragraph 815-10-45-4, with a link to transition paragraph 210-20-65-1, as follows:

815-10-45-4 Unless the conditions in paragraph ~~210-20-45-1~~210-20-45-5B are met, the **fair value** of derivative instruments in a loss position shall not be offset against the fair value of derivative instruments in a gain position. Similarly, amounts recognized as accrued receivables shall not be offset against amounts recognized as accrued payables unless ~~a right of setoff exists.~~the same conditions are met.

17. Supersede paragraphs 815-10-45-5 through 45-7, with a link to transition paragraph 210-20-65-1, as follows:

815-10-45-5 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Without regard to the condition in paragraph 210-20-45-1(c), a reporting entity may offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. Solely as it relates to the right to reclaim cash collateral or the obligation to return cash collateral, fair value amounts include amounts that approximate fair value. The preceding sentence shall not be analogized to for any other asset or liability. The fair value recognized for some contracts may include an accrual component for the periodic unconditional receivables and payables that result from the contract; the accrual component included therein may also be offset for contracts executed with the same counterparty under a master netting arrangement. A master netting arrangement exists if the reporting entity has multiple contracts, whether for the same type of derivative instrument or for different types of derivative instruments, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract.~~

815-10-45-6 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A reporting entity shall make an accounting policy decision to offset fair value amounts pursuant to the preceding paragraph. The reporting entity's choice to offset or not must be applied consistently. A reporting entity shall not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. A reporting entity that makes an accounting policy decision to offset fair value amounts recognized for derivative instruments pursuant to the preceding paragraph but determines that the amount recognized for the right to reclaim cash collateral or the obligation to return cash collateral is not a fair value amount shall continue to offset the derivative instruments.~~

815-10-45-7 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A reporting entity that has made an accounting policy decision to offset fair value amounts is not permitted to offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against net derivative instrument positions if those amounts either:~~

- ~~a. Were not fair value amounts~~
- ~~b. Arose from instruments in a master netting arrangement that are not eligible to be offset.~~

18. Supersede paragraph 815-10-50-7, with a link to transition paragraph 210-20-65-1, as follows:

Disclosure

815-10-50-7 Paragraph superseded by Accounting Standards Update 2011-XX. ~~A reporting entity's accounting policy to offset or not offset in accordance with paragraph 815-10-45-6 shall be disclosed.~~

Amendments to Subtopic 825-10

19. Supersede paragraphs 825-10-45-1 through 45-3 and the related headings, with a link to transition paragraph 210-20-65-1, as follows:

Financial Instruments—Overall

Other Presentation Matters

~~Fair Value Option~~

~~> Statement of Financial Position~~

825-10-45-1 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Entities shall report assets and liabilities that are measured at **fair value** pursuant to the fair value option in this Subtopic in a manner that separates those reported fair values from the carrying amounts of similar assets and liabilities measured using another measurement attribute.~~ **[Content moved to paragraph 825-10-45-5]**

825-10-45-2 Paragraph superseded by Accounting Standards Update 2011-XX. ~~To accomplish that, an entity shall either:~~

- ~~a. Present the aggregate of fair value and non-fair-value amounts in the same line item in the statement of financial position and parenthetically disclose the amount measured at fair value included in the aggregate amount~~
- ~~b. Present two separate line items to display the fair value and non-fair-value carrying amounts.~~ **[Content moved to paragraph 825-10-45-6]**

~~> Statement of Cash Flows~~

825-10-45-3 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Entities shall classify cash receipts and cash payments related to items measured at fair value according to their nature and purpose as required by Topic 230.~~ **[Content moved to paragraph 825-10-45-7]**

20. Add paragraphs 825-10-45-4 through 45-7 and the related headings, with a link to transition paragraph 210-20-65-1, as follows:

General

> Offsetting

825-10-45-4 Offsetting of financial assets and financial liabilities is allowed only if the criteria in paragraph 210-20-45-5B are met.

Fair Value Option

> Statement of Financial Position

825-10-45-5 Entities shall report assets and liabilities that are measured at **fair value** pursuant to the fair value option in this Subtopic in a manner that separates those reported fair values from the carrying amounts of similar assets and liabilities measured using another measurement attribute. **[Content moved from paragraph 825-10-45-1]**

825-10-45-6 To accomplish that, an entity shall either:

a. Present the aggregate of fair value and non-fair-value amounts in the same line item in the statement of financial position and parenthetically disclose the amount measured at fair value included in the aggregate amount
b. Present two separate line items to display the fair value and non-fair-value carrying amounts. **[Content moved from paragraph 825-10-45-2]**

> Statement of Cash Flows

825-10-45-7 Entities shall classify cash receipts and cash payments related to items measured at fair value according to their nature and purpose as required by Topic 230. **[Content moved from paragraph 825-10-45-3]**

Amendments to Subtopic 860-30

21. Supersede paragraph 860-30-60-1 and its related heading, with a link to transition paragraph 210-20-65-1, as follows:

Transfers and Servicing—Secured Borrowing and Collateral

Relationships

~~**> Balance Sheet**~~

860-30-60-1 Paragraph superseded by Accounting Standards Update 2011-XX. ~~For the conditions that must be met for an entity to be permitted to offset amounts recognized as payables under repurchase agreements and amounts recognized as receivables under reverse repurchase agreements, see paragraphs 210-20-45-11 through 45-12.~~

Amendments to Subtopic 910-405

22. Supersede paragraphs 910-405-45-1 through 45-2 and their related heading, with a link to transition paragraph 210-20-65-1, as follows:

Contractors—Construction—Liabilities

Other Presentation Matters

~~**> Advances on Cost-Plus Contracts**~~

910-405-45-1 Paragraph superseded by Accounting Standards Update 2011-XX.~~An advance received on a cost-plus contract shall not be offset against accumulated costs unless it is a payment on account of work in progress. Such advances are made to provide a revolving fund and are not applied as partial payment until the contract is nearly or fully completed.~~

910-405-45-2 Paragraph superseded by Accounting Standards Update 2011-XX.~~Advances that are payments on account of work in progress shall be shown as a deduction from the related asset.~~

Amendments to Subtopic 940-320

23. Supersede paragraphs 940-320-45-2 through 45-3 and their related heading, with a link to transition paragraph 210-20-65-1, as follows:

Financial Services—Broker and Dealers—Investments—Debt and Equity Securities

Other Presentation Matters

~~**> Balance Sheet**~~

940-320-45-2 Paragraph superseded by Accounting Standards Update 2011-XX.~~Proprietary securities transactions entered into by a broker-dealer for trading or investment purposes shall be included in securities owned and securities sold, not yet purchased.~~

940-320-45-3 Paragraph superseded by Accounting Standards Update 2011-XX.~~Payables and receivables arising from unsettled **regular-way trades** may be recorded net in an account titled net receivable (or payable) for unsettled regular-way trades.~~

Amendments to Subtopic 942-305

24. Supersede paragraph 942-305-45-1 and its related heading, with a link to transition paragraph 210-20-65-1, as follows:

Financial Services—Depository and Lending—Cash and Cash Equivalents

Other Presentation Matters

~~**> Reciprocal Account Balances**~~

942-305-45-1 Paragraph superseded by Accounting Standards Update 2011-XX. ~~Reciprocal account balances shall be offset if they will be offset in the process of collection or payment. Overdrafts of such accounts shall be reclassified as liabilities, unless the financial institution has other accounts at the same financial institution against which such overdrafts can be offset.~~

The amendments in this proposed Update were approved for publication by three members of the Financial Accounting Standards Board. Ms. Seidman and Mr. Golden voted against publication of the amendments. Their alternative views are set out at the end of the Basis for Conclusions.

Members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Russell G. Golden
Thomas J. Linsmeier
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. This basis for conclusions summarizes the considerations of the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) in reaching the conclusions in the Exposure Draft, *Balance Sheet (Topic 210): Offsetting.* Individual Board members gave greater weight to some factors than others.

BC2. Following requests from financial statement users and the recommendations of the Financial Stability Board, the FASB and the IASB added a project to their respective agendas to improve and potentially bring to convergence the requirements for offsetting financial and derivative assets (hereinafter referred to as "eligible assets) and financial and derivative liabilities (hereinafter referred to as "eligible liabilities"). The Boards made this decision because the differences in their accounting requirements for offsetting eligible assets and eligible liabilities are the cause of the single largest difference in amounts presented in statements of financial position between those prepared in accordance with U.S. GAAP and those prepared in accordance with IFRSs.

Proposed Requirements

BC3. The proposed requirements would replace the requirements in U.S. GAAP for offsetting eligible assets and eligible liabilities and IFRSs for financial assets and liabilities and would establish a common approach.

BC4. Under the proposed requirements, an entity would be required to offset a recognized eligible asset and a recognized eligible liability if, and only if, it has an unconditional right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously.

BC5. The proposals would eliminate the exceptions in U.S. GAAP for offset in some arrangements in which the ability to set off is conditional and there is no intention to set off or the intention to set off is conditional. The proposal would enhance disclosures required by U.S. GAAP and IFRSs by requiring improved information about derivatives, financial assets and financial liabilities subject to setoff rights, and related arrangements (such as collateral agreements), and the effect of those rights and arrangements on an entity's financial position.

BC6. The proposals clarify that the offsetting criteria apply whether the right of setoff arises from a bilateral arrangement or from a multilateral arrangement (that is, between three or more parties). The proposals also clarify that a legally enforceable right of setoff must be a right of setoff that is legally enforceable in all circumstances (including the normal course of business and default by, or the bankruptcy of, a counterparty).

Outreach Performed

BC7. In reaching their conclusions, the Boards conducted extensive outreach including meetings with users, legal experts and firms, preparers, regulators, clearing houses, industry groups, and auditors:

a. Representatives from the banking sector provided an overview of their organizations' netting policy and practice and also industry practice with respect to netting.
b. Legal experts on financial law provided an overview of (1) the legal meaning, basis, and effect of setoff rights in master netting and other agreements; (2) whether the legal analysis and effect of contracts with or through central counterparties differ; and (3) the interaction of setoff rights with bankruptcy laws and relevant cross-border implications.
c. International Swaps and Derivatives Association (ISDA) and representatives of clearing houses provided a general overview of the master netting agreement framework, how the various aspects (that is, confirmations, schedules, the master agreement, and the other documents) of the framework relate to each other, how the framework is intended to work and the workings, and rules of clearing houses and exchanges.
d. Auditors. The staff also sent a 'Request for Information' to some accounting firms. Most of the firms asked the Boards to establish a principle for what the statement of financial position is intended to communicate to users and said that offsetting in the statement of financial position should follow that principle.
e. Users. The staff and the Boards met with users of financial statements, including analysts from asset management firms, investment banks, user groups, and rating agencies to discuss their views on offsetting. The staff also invited users to respond to an online survey on the question. There was no consensus from those users about the usefulness of providing gross or net information in the statement of financial position. Responses varied depending on the geographical location of users and company as well as the type of user (that is depending on whether they were buy side or sell side analysts and whether they were equity or credit analysts). However, irrespective of their views, there was consensus that both gross information and net information is useful and both are required for analyzing financial

statements. They asked the Boards to develop a common standard to allow international comparability, especially among banks. They also preferred a mandatory requirement to offset if the criteria are met (if the Boards decide to allow offsetting) rather than allowing offset as an accounting policy choice, in order to improve comparability between entities.

Principle Underlying the Proposed Approach for Offsetting Eligible Assets and Eligible Liabilities

BC8. It is a general principle of financial reporting that (a) assets and liabilities are reported separately from each other consistently with their characteristics as resources or obligations of the entity and (b) offsetting of recognized assets and recognized liabilities detracts from the ability of users both to understand the transactions, other events, and conditions that have occurred and to assess the entity's future cash flows.

BC9. The Boards decided that offsetting eligible assets and eligible liabilities is appropriate and reflects the financial position of an entity only if:

a. On the basis of the rights and obligations associated with the eligible asset and eligible liability, the entity has, in effect, a right to or an obligation for only the net amount (that is, the entity has, in effect, a single net eligible asset or eligible liability).
b. The amount resulting from offsetting the eligible asset and eligible liability reflects an entity's expected future cash flows from settling two or more separate eligible instruments.

In all other circumstances, recognized eligible assets and eligible liabilities of an entity are presented in the statement of financial position separately from each other, according to their nature as assets or liabilities.

BC10. Eligible assets and eligible liabilities therefore would be presented in the financial statements in a manner that provides information that is useful for assessing the following:

a. The entity's ability to generate cash in the future (the prospects for future net cash flows)
b. The nature and amounts of the entity's economic resources and claims against the entity
c. The entity's liquidity and solvency.

BC11. The Boards concluded that the net amount represents the entity's right or obligation if (a) the entity has the ability to insist on a net settlement or enforce net settlement in all situations (that is, the exercise of that right is not contingent on a future event), (b) that ability is assured, and (c) the entity intends to receive or pay a single net amount, or to settle simultaneously.

Conceptual Framework for Financial Reporting

BC12. In evaluating whether and when offsetting in the statement of financial position is appropriate or provides useful information, the Boards considered whether offsetting is consistent with the objective and the qualitative characteristics of financial reporting information as described in the *Conceptual Framework for Financial Reporting*.

BC13. The Boards' Conceptual Framework specifies that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. It explains that existing and potential investors, lenders, and other creditors need information:

a. To help them assess the prospects for future net cash flows to an entity
b. About the nature and amounts of a reporting entity's economic resources and claims against the entity to identify the reporting entity's financial strengths, weaknesses, liquidity, and solvency and its needs for additional financing
c. About priorities and payment requirements of existing claims to predict how future cash flows will be distributed among those with a claim against the reporting entity.

BC14. Thus, the objective of financial reporting necessitates the providing of information in the statement of financial position about the economic resources of the entity (its assets) and the claims on those resources (its liabilities and equity).

BC15. Generally, presenting assets and liabilities net limits the ability of users of financial statements to assess the future economic benefits available to, and obligations of, the entity and their ability to assess the entity's financial strengths and weaknesses. Offsetting obscures the existence of some assets and liabilities and thereby reduces users' ability either to assess the entity's liquidity and solvency and its needs for additional financing or to predict how future cash flows will be distributed among those with a claim against the entity.

BC16. The Boards therefore concluded that offsetting eligible assets and eligible liabilities, does not generally meet the objective of financial reporting, as set out in the Conceptual Framework, and that eligible assets and eligible liabilities should, therefore, generally be presented gross in the statement of financial position.

BC17. The Boards believe that offsetting of an eligible asset and an eligible liability in the statement of financial position is consistent with the objective of financial reporting only if on the basis of the rights and obligations associated with an eligible asset and an eligible liability, the entity has, in effect, a right to or an obligation for only the net amount (that is, the entity has, in effect, a single net eligible asset or eligible liability).

BC18. The Boards believe that the net amount represents the entity's right or obligation if (a) the entity has the ability to insist on a net settlement or enforce net settlement in all situations (that is, the exercise of that right is not contingent on a future event), (b) that ability is assured, and (c) the entity intends to receive or pay a single net amount, or to settle the asset and liability simultaneously.

BC19. The Conceptual Framework states that the qualitative characteristics of information in financial reports are the attributes that make information provided in financial statements useful to users of financial statements. For financial information to be useful, it must be relevant and faithfully represent what it purports to represent.

BC20. The Conceptual Framework defines relevant financial information as information that is capable of making a difference in the decisions made by users. Financial information has that capability if it has predictive value, confirmatory value, or both.

BC21. The Boards believe that, generally, the presentation of gross amounts of assets and of liabilities provides more relevant information than a net presentation does. In particular, the Boards believe that gross amounts of derivative assets and liabilities are more relevant to users of financial statements than net amounts for assessing the liquidity or solvency of an entity. A derivative can generally be settled or sold at any time for an amount equal to its fair value. Thus, the Boards believe that gross amounts generally provide better information about the entity's derivatives portfolio and its exposure to risk.

BC22. Gross presentation of derivative assets and liabilities also depicts a market assessment of the present value of the net future cash flows directly or indirectly embodied in those assets and liabilities, discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur. Periodic information about the gross fair value of an entity's derivative portfolio (under current conditions and expectations), for example, should help users both in making their own predictions and in confirming or correcting their earlier expectations.

BC23. The Boards therefore concluded that the gross presentation of such assets and liabilities, generally, provides relevant information and that it is more useful to investors, creditors and other users of financial statements than a net presentation.

BC24. However, the Boards concluded that when the proposed offset criteria are met, offsetting meets the relevance criteria because doing so reflects that the entity has, in effect, a right to or obligation for only the net amount (the entity has, in effect, a single net financial asset or financial liability). In these circumstances offsetting should be required.

BC25. The Conceptual Framework explains that for financial information to be useful, it must not only provide relevant information, it must also faithfully represent the phenomena that it purports to represent.

BC26. Offsetting generally obscures the existence of some assets and liabilities in the statement of financial position and it changes the size of the statement of financial position. Thus, the Boards believe that a net presentation of assets and liabilities in the statement of position generally does not provide a complete depiction of the assets and liabilities of an entity.

BC27. Offsetting is conceptually different from the derecognition of financial instruments. Although conceptually different, offset that results in a net amount of zero and derecognition resulting in no gain or loss are indistinguishable in their effect in the statement of financial position. Likewise, not recognizing assets and liabilities of the same amount in financial statements achieves similar reported results. Therefore, the Boards believe that offsetting could provide misleading information about an entity's financial position.

BC28. The Boards concluded that if, on the basis of the rights and obligations associated with the eligible asset and eligible liability, the entity has, in effect, a right to or obligation for only the net amount (that is, the entity has, in effect, a single net eligible asset or eligible liability) offsetting faithfully represents the economic resources of and claims against an entity. The Boards concluded that this is the case if (a) the entity has the ability to insist on a net settlement or enforce net settlement in all situations (that is, the exercise of that right is not contingent on a future event), (b) the ability to insist on a net settlement is assured, and (c) the entity intends to receive or pay a single net amount or to settle simultaneously.

Alternative Approaches

BC29. The Boards considered other approaches for determining when offsetting a recognized eligible asset and a recognized eligible liability would provide more useful information to users of financial statements. The Boards rejected those approaches for the reasons set out below.

Requiring Offset When an Entity Has a Conditional Right of Setoff

BC30. The Boards considered whether offset should be required when an entity has a legally enforceable right of setoff but that right is conditional (that is, enforceable or would be triggered only on the occurrence of some future event, usually the default, insolvency, or bankruptcy of the counterparty or other credit-related events). Under this alternative, all eligible assets and eligible liabilities that are executed with the same counterparty that are subject to a legally enforceable master netting agreement, or similar netting arrangement, would be offset, regardless of their other characteristics (for example, maturity, type, or underlying risk). This approach is based on the notion that offsetting is appropriate if counterparty risk is mitigated.

BC31. Under existing and proposed requirements, when an entity enters into a contract that hedges its exposure to a particular risk, it is not required or permitted to present the asset and the liability in that hedge relationship net in the statement of financial position (although the arrangement may even result in complete mitigation of the entity's exposure to a particular market risk). The Boards could not identify a reason why net presentation should be allowed or required solely because a master netting agreement reduces an entity's credit exposure (one type of risk) on financial contracts.

BC32. Conditional rights of setoff are present in many arrangements, for example, nonrecourse debt arrangements and banker and customer relationships and offset is not allowed for any of those arrangements. The Boards were unable to identify any conceptual or practical reason for singling out contracts governed by a master netting agreement and cash collateral for offset in accounting.

BC33. The Boards believe that net presentation (of the gross amounts of the asset and liabilities) in the statement of financial position, under this approach, reduces users' ability to understand the implied economic leverage position of an entity. Leverage is of concern to users because of two effects: (a) it creates and increases the risk of default and (b) it increases the potential for rapid deleveraging.

BC34. The Boards believe that zero gross exposure is different from zero net exposure (if offset is on the basis of a conditional right of setoff), because the latter may have significant counterparty, operational, or other risks. For example, a bank that has a large amount of derivatives contracts outstanding, but without any significant net exposure, could still make very large losses if prices change significantly or important counterparties fail and netting arrangements do not work.

BC35. The Boards were not convinced that requiring offsetting on the basis of what might or might not happen in the future (that is, an assumption that an entity or its counterparties will default or become bankrupt) would be appropriate.

BC36. The Boards also concluded that offsetting based on a conditional right of setoff will result in financial statements that depict only entity's exposure to credit risk. The Boards observed that the statement of financial position does not represent an aggregation of the credit risk of an entity; it is not its purpose to set out the rights or the obligations of an entity if counterparties fail or become bankrupt. Thus, the Boards concluded that offsetting on the basis of a conditional right of setoff would not result in financial statements that are representationally faithful.

BC37. The Boards evaluated the similarities in and differences between offsetting of an eligible asset and eligible liability under this approach and netting of payments underlying a swap agreement. The accounting treatment of a swap agreement is that of a single financial arrangement (that is, a swap is a single financial instrument and it is accounted for as such).

BC38. There is some similarity between offsetting and some payment arrangements in a swap contract. Typically, the contractual payments underlying a swap are netted before payment is made (but this is not always the case). A swap contract that is structured so that the settlement dates for the pay leg and receive leg are the same and requires or provides that amounts payable and receivable must be settled net (that is, the difference between the pay leg and the receive leg) would be consistent with the proposed offset criteria as the contract would typically provide an unconditional and legally enforceable right of setoff and the entity can demonstrate intention to settle net.

BC39. However, not all swap contracts are structured in the manner set out in paragraph BC38. Irrespective of the settlement provisions, the accounting treatment of a swap agreement is that of a single financial arrangement (that is, a swap is a single financial instrument and it is accounted for as such). The offsetting criteria are not relevant when there is a single financial instrument. Offsetting is applicable only when an entity has both a financial asset and a financial liability and the conditions for offsetting are met. The Boards concluded that offsetting under this approach is different from net presentation of the different right and obligations in a single derivative instrument (that is, the payment obligations and right to receive cash under an interest rate swap agreement).

BC40. Moreover, the right of the parties to a swap agreement to pay a net amount on settlement is not a conditional right. Hence, the right to pay a net amount in a swap agreement is different from conditional rights of setoff in master netting agreements (close-out netting), which are enforceable only on the occurrence of some future event, usually the default, insolvency, or bankruptcy of the counterparty or other credit-related events.

BC41. The Boards considered the argument that offsetting positions under contracts governed by a master netting agreement with conditional setoff rights do not impair the representational faithfulness of the financial statement because a master netting agreement consolidates the master agreement and all transactions covered by it into a single agreement.

BC42. One general issue relating to the master netting framework (irrespective of whether the right of setoff provided by the arrangement is conditional or unconditional) is whether the separate parts of the framework constitute a single contract or a number of separate contracts. There is scope for differences in views on this issue, and it may be that the terms of the individual transaction, case law, and the laws of a particular jurisdiction might favor one view over the other. However, the main issue is the effect of such provisions, that is, is it a derecognition recognition issue, an offsetting issue, or a question of measurement.

BC43. If the entire master netting agreement is to be treated as a single contract (and therefore a single financial instrument for accounting purposes), it would raise issues of recognition and derecognition. The question would be when to recognize such an agreement as an asset or a liability and subsequently how to treat any new transaction (that is, whether subsequent transactions are modifications of the contract or change the nature of the asset or liability previously recognized in such a way that the previously recognized asset or liability should be derecognized).

BC44. Under existing requirements, each of the transactions covered by a master netting agreement is recognized separately as an asset or a liability as the case may be. The Boards concluded that:

a. Each trade or transaction is exposed to risks that may differ from the risks to which the other trades or transactions are exposed.
b. The pricing of the individual transactions is independent.
c. Each transaction is typically negotiated as a separate trade with a different commercial objective.
d. Each of the individual transactions represents a transaction with its own terms and conditions and is not meant to be performed concurrently or consecutively with other transactions.
e. An entity has separate performance obligations and rights for each of such transactions and each may be transferred or settled separately.

BC45. The Boards concluded that, irrespective of whether all the transactions constitute a single contract at law, consistently with current requirements, each of those arrangements (transactions) should be recognized and presented separately as an asset or a liability, as the case may be.

BC46. The Boards believe that counterparty risk is a matter of measurement rather than presentation and that mitigation of credit risk per se should not be the basis for offsetting. The proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* published June 29, 2010, proposes that the effect of master netting agreements should be used as the basis for determining credit valuation adjustments when there is a legally enforceable right to set off one or more eligible assets and financial liabilities with the counterparty in the event of default (for example, because the reporting entity has entered into an enforceable master netting agreement with that counterparty).

BC47. The Boards believe that for presentation purposes net amounts are also important but should be disclosed in the notes. Financial statements contain notes, schedules, and other information that supplement the information in the primary financial statements. For example, they may contain additional information that is relevant to the needs of users about the items in the statement of financial position and the statement of comprehensive income such as disclosures about the risks and uncertainties affecting the entity, information about geographical and industry segments and the effect of changing prices on the entity. Similarly, the Boards concluded that information about the effect on credit risk of conditional setoff arrangements is best provided by the disclosure of the nature, effect, and extent of such arrangements.

Requiring Offset When an Entity Has a Conditional Right of Setoff and the Contracts Have the Same or Primary Underlying Risks

BC48. Another approach the Boards considered was to allow offsetting if an entity has a conditional and legally enforceable right of setoff and the contracts have the same risks or same primary risks.

BC49. This alternative is based on the notion that it is not appropriate to offset eligible assets and eligible liabilities unless the following risks are eliminated: counterparty risk in the event of default and underlying market risk, because doing so would not faithfully represent the types of risks to which an entity is exposed or the timing of its cash flows.

BC50. This approach, arguably, is consistent with how contracts are handled or aggregated on exchanges and in clearing systems. In such scenarios net positions are determined on an instrument by instrument (that is, are based on risk type). In general, exchanges either (a) set off positions in a particular product (by book entry) or (b) net by novating outstanding contracts into a single contract at the end of a trading date or period, if the contracts are of the same type (risk, duration, currency). This approach is also seen, partly, to be consistent with how financial institutions manage risks. Financial institutions manage not only credit risk but also market risk with the objective of maintaining both types of risk at an acceptable level.

BC51. The Boards concluded that implementing this approach would raise practical problems because it would be difficult to identify a single primary underlying risk: financial instruments, especially derivatives, are usually exposed to several different types of risk. For example, a forward contract for equity securities often has both share price and foreign currency exchange risk. This may cause operational difficulties for entities because they would have to determine the primary or predominant risk of every eligible asset and eligible liability to determine which items should be offset in the statement of financial position. Moreover, offsetting on the basis of the same primary risk ignores the other risks that may be present in eligible assets and eligible liabilities.

Requiring Offset Only When the Eligible Asset and Eligible Liability Are Settled on the Same Date or the Asset Is Settled Before the Liability

BC52. The Boards considered whether two instruments should be required to be offset if the instruments have the same contractual maturity or the asset settles before the liability. This criterion is aimed at preventing a situation in which an entity makes the required payment (for a liability) but is unable to obtain payment from the counterparty for its asset at a later time.

BC53. The Boards noted that this criteria is useful, however, the requirement for an entity to demonstrate its intention to settle net or settle simultaneously to qualify for offsetting addressed that concern. The Boards regard this requirement as redundant.

Requiring Only an Unconditional Right of Setoff

BC54. Some reason that an unconditional and legally enforceable right of setoff is, of itself, a sufficient condition for offsetting an eligible asset and an eligible liability. They argue that if an unconditional right of setoff is enforceable, the eligible asset and eligible liability together form a single asset or liability regardless of how the parties intend to settle the two positions. They also reason that intention to settle net is subjective and difficult to substantiate.

BC55. The Boards believe that the existence of an unconditional right of setoff, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the unconditional right of setoff or to settle the eligible asset and eligible liability simultaneously, the amount and timing of an entity's future net cash flows are not affected. Also, an intention by one or both parties to settle on a net basis without an unconditional and legally enforceable right to do so is not a sufficient basis for offsetting because the rights and obligations constitute separate eligible assets and eligible liabilities and should be presented separately from each other in accordance with their characteristics as rights or obligations.

BC56. The Boards concluded that the existence of the unconditional and legally enforceable right of setoff, by itself, is not a sufficient basis for offsetting because the amount and timing of an entity's future cash flows may not be affected and providing information on a net basis would not assist users in assessing future cash flows. Hence, the Boards concluded that in the absence of an intention to exercise the unconditional right of setoff (to settle net), presenting the asset and liability on a net basis would be inappropriate.

Other Considerations

BC57. The Boards also took the following issues into account in reaching their conclusions.

Multilateral Setoff Arrangements

BC58. The Boards evaluated whether to limit offsetting only to the circumstances in which an entity has an asset and a liability with the same counterparty (bilateral) or to require offsetting for arrangements in which more than two parties are involved (multilateral).

BC59. Traditionally, offsetting is allowed for arrangements between two parties. However, IAS 32, *Financial Instruments: Presentation*, specifies that "in unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of setoff."

BC60. Some reason that it is difficult to satisfy all the other conditions, including having a legally enforceable right to setoff, under multilateral arrangements. They reason that, as stated in IAS 32, there may be circumstances in which a multilateral agreement meets the criteria of intention and ability to setoff, but those circumstances are unusual. Accordingly, in their view, requiring offsetting for multilateral arrangements would not be appropriate.

BC61. The Boards concluded that although multilateral offsetting is likely to be unusual, there is no basis for explicitly excluding multilateral netting arrangements from the scope of offsetting if all the other criteria, including legal enforceability, are met for the transaction.

Collateral Obtained or Pledged in Respect of Eligible Assets and Eligible Liabilities

BC62. The Boards believe that the collateral for an amount owed is irrelevant to the question of whether assets and liabilities should be presented separately or offset in the statement of financial position. The credit risk that an entity faces in relation to settling a liability may be negligible or nonexistent because of the collateral for the debt, but this is not a sufficient reason to require offsetting in the statement of financial position. The Boards note that users are interested in information about an entity's performance and financial position rather than simply credit risk.

BC63. The Boards concluded that offsetting the payables and receivables related to cash collateral would make it difficult to analyze the relationship between the carrying amount of derivatives and other financial instruments and the associated gains or losses reported in the statement of comprehensive income. They therefore concluded that cash and other financial instrument collateral should not be offset against recognized eligible assets and financial liabilities.

Consistency with Basel Framework Requirements

BC64. Some users and constituents requested that the offsetting guidance should be aligned with the Basel II requirements on netting. The Boards reviewed the Basel guidance on netting for purposes of capital adequacy calculations (in the Basel II Accord). The Boards noted that there are significant differences between the Basel II netting guidance and the offsetting requirements.

BC65. The Boards noted that aligning the offsetting requirements with the Basel II netting requirements would be difficult to achieve because the differences are significant. The Basel Framework permits netting in a wide range of circumstances than is permitted under U.S. GAAP and IFRSs. The Boards also believe that the objective of financial statements and the goal of offsetting may not necessarily be congruent with that of prudential regulation. Thus the offsetting and netting requirements will inevitably be different. The Basel Framework is intended to reflect the exposure in the event of default of an entity’s counterparties, which is seen as an appropriate measure for capital adequacy purposes. But, such an approach does not result in financial statements that are consistent with the objective of financial reporting.

Requiring Setoff If the Offsetting Criteria Are Met

BC66. At present, under IFRSs when the offsetting criteria are met, an entity is required to set off eligible assets and eligible liabilities, whereas U.S. GAAP permits, but does not require, offsetting when the specified criteria are met.

BC67. As noted in paragraph BC7, although there was no consensus regarding the usefulness of gross versus net information, there was consensus for a common solution. Users argued for a common standard to be developed to allow for international comparability. The Boards concluded that a common solution (and consistent approach and application of the proposed requirements) would enhance comparability across entities.

BC68. The Boards note that financial statements provide useful information if they enable users to identify similarities and differences between entities. Information about an entity is more useful if it can be compared with similar information about other entities. Thus the Boards concluded that offsetting should be required if the offsetting criteria are met.

Disclosures

BC69. The proposals would require an entity to present information about rights of setoff and related arrangements (such as collateral agreements) and the effect of those arrangements on the entity's financial position.

BC70. The Boards noted that faithful representation requires provision of all relevant information that is necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. The Boards therefore decided to require improved information about eligible assets and financial liabilities subject to rights of setoff, and related arrangements (such as collateral agreements), and the effect of those rights and arrangements on an entity's financial position.

BC71. In developing the disclosure requirements, the Boards took into account the disclosure requirements in U.S. GAAP, IFRSs, and the Basel Framework and what the Boards perceive to be gaps in the current disclosure requirements in U.S. GAAP and IFRSs.

BC72. The Boards' outreach showed that users unanimously support robust disclosures, regardless of the offsetting criteria. The Boards took into account the views of users and market participants in developing the proposed disclosure requirements.

Cross-Referencing

BC73. The Boards propose to require cross-referencing to other notes in which information about rights of setoff and related arrangements is disclosed, to the extent that the required information is disclosed in more than a single note. Users have consistently criticized the presentation of disclosures about financial instruments (in particular derivatives) as being difficult to understand and follow. The Boards noted that disclosing the required information in a single note could provide the desired information about rights of setoff and related arrangements. Furthermore, the Boards believe that disclosing the required information in a single note could enhance the understandability of information about rights of setoff and related arrangements.

BC74. The Boards also noted that some of the information proposed to be required may already be required by other U.S. GAAP and IFRSs. The Boards, therefore, decided that transparency would be best enhanced by requiring cross-referencing of the rights of setoff and related arrangements note to the other notes that include disclosures about rights of setoff and other related arrangements. The Boards also concluded that it would not be appropriate for the Boards to prescribe the organization of note disclosures. The Boards believe that management should be able to determine the most appropriate presentation of the note disclosures.

Tabular Information

BC75. The proposed disclosures would require that the quantitative disclosure be presented in a tabular format, unless another format is more appropriate. The Boards believe that a tabular format would best convey an overall understanding of an entity's financial position and the effect of any right of setoff and other related arrangements. The Boards believe that using tables would improve the transparency of information about rights of setoff and related arrangements and their effect on an entity's financial position.

Netting Arrangements

BC76. The Boards note that rights of setoff can reduce the credit risk exposures of market participants, relative to what the exposures would be were the same parties liable for their gross exposures on the same set of underlying contracts. This can be the case irrespective of whether the proposed offsetting criteria are satisfied. Accordingly the Boards believe that disclosures about the existence, nature, and effect of such rights would be useful to users of financial statements.

Collateral Arrangements

BC77. In most cases, collateral posted against eligible assets and eligible liabilities may be liquidated immediately upon an event of default. Collateral mitigates counterparty risk. Consequently, disclosing the value of collateral posted or obtained provides useful information in understanding the net credit exposure of an entity. The Boards note that margin payments in the form of cash are just one way of posting or obtaining collateral. In many cases, other financial assets are used as collateral. The Boards concluded that an entity should disclose information about both cash and other financial instrument collateral and the effect of such arrangements on the entity's financial position.

Transition Requirements

BC78. The Boards identified two transition approaches, namely, prospective and retrospective.

BC79. Prospective transition would require an entity to apply the relevant provisions only on a prospective basis. Prospective transition is generally appropriate only in situations in which it is not practicable to apply a standard to all prior periods and/or the standard applies to discrete nonrecurring events or transactions. The Boards do not believe that this is the case with the proposed requirements. The Boards believe that prospective application would decrease comparability and might be misleading to users of financial statements.

BC80. Retrospective transition would require an entity to apply the new requirements to all periods presented. This would maximize consistency of financial information between periods. This consideration is more significant under U.S. GAAP because there will be considerable change in the numbers in the statement of financial position (as a result of eliminating the exceptions for conditional rights of setoff). Therefore, the Boards decided to require retrospective application, whereby all comparative periods would be presented to reflect the revised offsetting requirements for consistency and comparability.

Alternative Views

BC81. Ms. Seidman and Mr. Golden agree with the almost unanimous views of investors and many preparers and the recommendation of the Financial Stability Board that the FASB and IASB should establish converged principles for offsetting of financial assets and liabilities that improve the information provided to investors of the world's global capital markets. Ms. Seidman and Mr. Golden also agree that the proposed disclosures about the rights of setoff and related arrangements associated with the entity's financial assets and financial liabilities and the effect of those rights on the entity's financial position improve the information provided to investors. Ms. Seidman and Mr. Golden disagree, however, with the proposed changes to require offsetting of financial assets and liabilities only if an entity has the unconditional right to offset and intends to net settle the financial asset or financial liability.

BC82. The Boards' rationale for this proposal is that gross presentation is particularly useful in understanding an entity's ability to generate cash in the future, the nature and amounts of the entity's economic resources and claims, and the entity's liquidity and solvency. Ms. Seidman and Mr. Golden observe that derivatives are required to be reported at fair value, which reflects the expected net cash inflows and outflows of the contract. Even for a single derivative contract, therefore, supplemental disclosure is required to provide information about the timing and uncertainty of cash flows (and other risks) relating to derivatives. Ms. Seidman and Mr. Golden disagree that gross presentation is the best way to provide information about the timing and uncertainty of cash flows and other risks for derivatives. They believe that information must be provided through disclosure, and they support the enhanced disclosure requirements proposed by the Boards.

BC83. Ms. Seidman and Mr. Golden also believe that the proposal would require different presentation for (a) a single derivative and (b) multiple derivatives with the same counterparty that are subject to a legally enforceable conditional master netting agreement that have similar cash flows. For example, a swap with multiple gross cash flow streams is recognized and measured at fair value, which reflects the expected net cash inflows and outflows of the contract. Yet, two forward contracts with the same counterparty under a legally enforceable conditional master netting arrangement would be measured separately at fair value and presented gross in the statement of financial position as an asset and a liability. An enforceable master netting arrangement effectively consolidates multiple derivative arrangements with the same counterparty into a single agreement. The failure to make one payment under the master netting arrangement would entitle the other party to terminate the entire arrangement and to demand the net settlement of all contracts. Ms. Seidman and Mr. Golden believe that net presentation in these circumstances appropriately reflects the amount of credit risk exposure under that arrangement. They believe that the aggregate fair value amounts of the individual contracts within the statement of financial position would not provide more information about the uncertainty of future cash flows from those contracts than the net amount would.

BC 84. Ms. Seidman and Mr. Golden would have supported a change to U.S. GAAP that would have required offset when an entity has a conditional and legally enforceable right to set off assets and liabilities with the same counterparty along with increased disclosure requirements similar to those proposed. Ms. Seidman and Mr. Golden believe that this would meet the demands of investors who were nearly unanimous that both gross information and net information are useful for analyzing financial statements.

Amendments to the XBRL Taxonomy

The following elements or modifications to existing elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit. Elements that currently exist in the 2009 Taxonomy are marked with an asterisk* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.

Individuals and organizations commenting on the amendments in this proposed Update should consider the usefulness, appropriateness, and completeness of these elements for entities required to include an XBRL exhibit with their SEC filings. Respondents also should consider the context of the elements in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Element Name	Standard Label	Definition	Codification Reference
DerivativesSetoffTextBlock	Derivatives, Setoff [Text Block]	The entire disclosure for information about rights of setoff and related arrangements associated with the entity's financial assets and financial liabilities and the effect of those rights on the entity's financial assets and financial liabilities.	210-20-50-2
DerivativesSetoffPolicyPolicyTextBlock	Derivatives, Setoff Policy [Policy Text Block]	Disclosure of accounting policy for setoffs associated with the entity's financial assets and financial liabilities.	210-20-50-2

Element Name	Standard Label	Definition	Codification Reference
DerivativesSetoffTableTextBlock	Derivatives, Setoff [Table Text Block]	Tabular disclosure of setoff and arrangements associated with the entity's financial assets and financial liabilities.	210-20-50-2
DerivativeConditionalRightofSetoffAxis	Derivative, Conditional Right of Setoff [Axis]	Each type of conditional right of setoff.	210-20-50-2
DerivativeConditionalRightofSetoffDomain	Derivative, Conditional Right of Setoff [Domain]	The types of conditional right of setoff for the portion of the net carrying amount reported in the statement of financial position.	210-20-50-2
DerivativeConditionalRightOfSetOffBankruptcyMember	Derivative, Conditional Right of Setoff, Bankruptcy [Member]	A conditional right of setoff existing from the bankruptcy of a counterparty.	210-20-50-2
DerivativeConditionalRightOfSetOffDefaultMember	Derivative, Conditional Right of Setoff, Default [Member]	A conditional right of setoff existing from the default of a counterparty.	210-20-50-2
DerivativeConditionalRightOfSetOffLegalRightMember	Derivative, Conditional Right of Setoff, Legal Right [Member]	A conditional right of setoff existing as a legal right.	210-20-50-2
DerivativeConditionalRightOfSetOffContr	Derivative, Conditional	A conditional right of setoff existing as	210-20-50-2

Element Name	**Standard Label**	**Definition**	**Codification Reference**
actualRightMember	Right of Setoff, Contractual Right [Member]	a contractual right.	
DerivativeConditionalRightOfSetOffOtherEventMember	Derivative, Conditional Right of Setoff, Other Event [Member]	A conditional right of setoff existing as the result of an other event.	210-20-50-2
DerivativeSetoffRightsLineItems	Derivative, Setoff Rights [Line Items]	Disclosure of information of reportable items with rights of setoff and related arrangements (such as collateral agreements) associated with the entity's derivative contracts.	210-20-50-2
DerivativeFairValueOfDerivativeAsset*	Derivative Asset, Fair Value, Gross Asset	Fair value of derivative asset, presented on a gross basis ~~even when the derivative instrument is subject to master netting arrangements and qualifies for net presentation in the statement of financial position~~.	210-20-45-5B
DerivativeFairValueOfDerivativeLiability*	Derivative Liability, Fair Value, Gross Liability	Fair value of derivative liability, presented on a gross basis ~~even when the derivative instrument is~~	210-20-45-5B

Element Name	Standard Label	Definition	Codification Reference
		~~subject to master netting arrangements and qualifies for net presentation in the statement of financial position~~.	
DerivativeAssetFairValueGrossLiability*	Derivative Asset, Fair Value, Gross Liability	Fair value of liability associated with derivative asset, presented on a gross basis~~ even when the derivative instrument is subject to master netting arrangements and qualifies for net presentation in the statement of financial position~~.	210-20-45-5B
DerivativeLiabilityFairValueGrossAsset*	Derivative Liability, Fair Value, Gross Asset	Fair value of derivative asset, presented on a gross basis~~ even when the derivative instrument is subject to master netting arrangements and qualifies for net presentation in the statement of financial position~~.	210-20-45-5B
DerivativeAssetPortfolioLevelAdjustments	Derivative Asset, Portfolio Level Adjustments	Amount of portfolio-level adjustment for the credit risk of each counterparty offset against financial assets.	210-20-50-2

Element Name	Standard Label	Definition	Codification Reference
DerivativeLiabilityPortfolioLevelAdjustments	Derivative Liability, Portfolio Level Adjustments	Amount of portfolio-level adjustment for the credit risk of each counterparty offset against financial liabilities.	210-20-50-2
DerivativeAssets*	Derivative Assets	Fair values as of the balance sheet date of all assets resulting from contracts that meet the criteria of being accounted for as derivative instruments, net of the effects of offsetting~~master netting arrangements~~.	210-20-45-5B
DerivativeLiabilities*	Derivative Liabilities	Fair values as of the balance sheet date of all liabilities resulting from contracts that meet the criteria of being accounted for as derivative instruments, net of the effects of offsetting~~master netting arrangements~~.	210-20-45-5B
DerivativeAssetNoNetSettlement	Derivative Asset, No Net Settlement	Amounts subject to an unconditional right of setoff but which the entity does not intend to settle net or simultaneously for derivative assets.	210-20-50-2

Element Name	Standard Label	Definition	Codification Reference
DerivativeLiabilityNoNetSettlement	Derivative Liability, No Net Settlement	Amounts subject to an unconditional right of setoff but which the entity does not intend to settle net or simultaneously for derivative liabilities.	210-20-50-2
DerivativeAssetCoveredByConditionalRightOfSetoff	Derivative Asset, Covered by Conditional Right of Setoff	The portion of the net carrying amount reported in the statement of financial position that is covered by each type of conditional right of setoff for derivative assets.	210-20-50-2
DerivativeLiabilityCoveredByConditionalRightOfSetoff	Derivative Liability, Covered by Conditional Right of Setoff	The portion of the net carrying amount reported in the statement of financial position that is covered by each type of conditional right of setoff for derivative liabilities.	210-20-50-2
DerivativeAssetNetAmountBeforeCollateral	Derivative Asset, Net Amount Before Collateral	The net amount of exposure of the entity's financial assets after right of setoff but before collateral.	210-20-50-2
DerivativeLiabilityNetAmountBeforeCollateral	Derivative Liability, Net Amount Before Collateral	The net amount of exposure of the entity's financial liabilities after right of setoff but before collateral.	210-20-50-2

Element Name	Standard Label	Definition	Codification Reference
DerivativeCollateralRightToReclaimCash*	Derivative, Collateral, Right to Reclaim Cash	The amount of the right to reclaim cash collateral under master netting arrangements~~ that have not been offset against net derivative instrument positions~~.	210-20-45-5B
DerivativeCollateralObligationToReturnCash*	Derivative, Collateral, Obligation to Return Cash	The amount of the obligation to return cash collateral under master netting arrangements~~ that have not been offset against net derivative instrument positions~~.	210-20-45-5B
DerivativeCollateralRightToReclaimFinancialInstruments	Derivative, Collateral, Right to Reclaim Financial Instruments	The amount of the right to reclaim financial instrument collateral under master netting arrangements.	210-20-50-2
DerivativeCollateralObligationToReturnFinancialInstruments	Derivative, Collateral, Obligation to Return Financial Instruments	The amount of the obligation to return financial instrument collateral under master netting arrangements.	210-20-50-2
DerivativeAssetNetExposure	Derivative Asset, Net Exposure	The net amount of exposure of the entity's financial assets and financial liabilities with right of setoff.	210-20-50-2

Element Name	Standard Label	Definition	Codification Reference
DerivativeLiabilityNetExposure	Derivative Liability, Net Exposure	The net amount of exposure of the entity's financial assets and financial liabilities with right of setoff.	210-20-50-2
DerivativeAssetsCurrent*	Derivative Assets, Current	Fair values as of the balance sheet date for all assets resulting from contracts that meet the criteria of being accounted for as derivative instruments and which are expected to be converted into cash or otherwise disposed of within a year or the normal operating cycle, if longer, net of the effects of offsetting~~master netting arrangements~~.	210-20-45-5B
DerivativeAssetsNoncurrent*	Derivative Assets, Noncurrent	Fair values as of the balance sheet date of all assets resulting from contracts that meet the criteria of being accounted for as derivative instruments which are expected to exist longer than one year or beyond the normal operating cycle, if longer, net of the effects of	210-20-45-5B

Element Name	Standard Label	Definition	Codification Reference
		offsetting~~master netting arrangements~~.	
DerivativeLiabilitiesCurrent*	Derivative Liabilities, Current	Fair values as of the balance sheet date of all liabilities resulting from contracts that meet the criteria of being accounted for as derivative instruments, and which are expected to be extinguished or otherwise disposed of within a year or the normal operating cycle, if longer, net of the effects of offsetting~~master netting arrangements~~.	210-20-45-5B
DerivativeInstrumentsAndHedgesLiabilities*	Derivative Instruments and Hedges, Liabilities	Sum as of the balance sheet date of the (a) fair values of all liabilities resulting from contracts that meet the criteria of being accounted for as derivative instruments, and (b) the carrying amounts of the liabilities arising from financial instruments or contracts used to mitigate a specified risk (hedge), and which are expected	210-20-45-5B

Element Name	Standard Label	Definition	Codification Reference
		to be extinguished or otherwise disposed of within a year or the normal operating cycle, if longer, net of the effects of offsetting~~master netting arrangements~~.	
DerivativeLiabilitiesNoncurrent*	Derivative Liabilities, Noncurrent	Fair values as of the balance sheet date of all liabilities resulting from contracts that meet the criteria of being accounted for as derivative instruments, and which are expected to be extinguished or otherwise disposed of after one year or beyond the normal operating cycle, if longer, net of the effects of offsetting~~master netting arrangements~~.	210-20-45-5B
DerivativesFairValueByBalanceSheetLocationAxis*	Derivatives, Fair Value, by Balance Sheet Location [Axis]	Fair value of derivative instrument, presented on a gross basis~~ even when the derivative instrument is subject to master netting arrangements and qualifies for net~~	210-20-45-5B

Element Name	Standard Label	Definition	Codification Reference
		~~presentation in the statement of financial position~~; presented by line item in the statement of financial position in which the fair value amounts of the derivative instruments are included.	
~~DerivativeFairValueGrossAmountNotOffsetAgainstCollateralNetAbstract~~	~~Derivative, Fair Value, Gross Amount Not Offset Against Collateral, Net [Abstract]~~		
~~DerivativeFairValueOfDerivativeAssetAmountNotOffsetAgainstCollateral~~	~~Derivative Asset, Fair Value, Amount Not Offset Against Collateral~~	~~The amount as of the balance sheet date of the fair value of derivative assets that in accordance with the entity's accounting policy was not offset against an obligation to return cash collateral under a master netting arrangement.~~	
~~DerivativeFairValueOfDerivativeLiabilityAmountNotOffsetAgainstCollateral~~	~~Derivative Liability, Fair Value, Amount Not Offset~~	~~The amount as of the balance sheet date of the fair value of derivative liabilities that in~~	

Element Name	Standard Label	Definition	Codification Reference
	~~Against Collateral~~	~~accordance with the entity's accounting policy was not offset against the right to reclaim cash collateral under a master netting arrangement.~~	
~~DerivativeFairValueGrossAmountNotOffsetAgainstCollateralNet~~	~~Derivative, Fair Value, Gross Amount Not Offset Against Collateral, Net~~	~~The net amount as of the balance sheet date of the fair value of derivative assets and derivative liabilities that in accordance with the entity's accounting policy were not offset against collateral under a master netting arrangement.~~	
~~DerivativeFairValueAmountOffsetAgainstCollateralNetAbstract~~	~~Derivative, Fair Value, Amount Offset Against Collateral, Net [Abstract]~~		
~~DerivativeFairValueOfDerivativeAssetAmountOffsetAgainstCollateral~~	~~Derivative Asset, Fair Value, Amount Offset Against Collateral~~	~~The amount as of the balance sheet date of the fair value of derivative assets that in accordance with the entity's accounting policy was offset against~~	

Element Name	Standard Label	Definition	Codification Reference
		~~an obligation to return cash collateral under a master netting arrangement.~~	
~~DerivativeFairValueOfDerivativeLiabilityAmountOffsetAgainstCollateral~~	~~Derivative Liability, Fair Value, Amount Offset Against Collateral~~	~~The amount as of the balance sheet date of the fair value of derivative liabilities that in accordance with the entity's accounting policy were offset against the right to reclaim cash collateral under a master netting arrangement.~~	
~~DerivativeFairValueAmountOffsetAgainstCollateralNet~~	~~Derivative, Fair Value, Amount Offset Against Collateral, Net~~	~~The net amount as of the balance sheet date of the fair value of derivative assets and derivative liabilities that in accordance with the entity's accounting policy were offset against collateral under a master netting arrangement.~~	