19 April 2011

Our ref: ICAEW Rep 45/11

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European Financial Reporting Advisory Group
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Chère Mme Flores

ED/2011/1 *Offsetting Financial Assets and Financial Liabilities*

MAJOR POINTS

Our overall view on the proposals

1. ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter, published in February 2011, on the International Accounting Standards Board Exposure Draft ED/2011/1 *Offsetting Financial Assets and Financial Liabilities*. Our responses to the main issues highlighted by EFRAG are set out below. A copy of our response to the IASB is attached to this letter.

2. We second EFRAG's welcome for the publication of the exposure draft and the Boards' efforts to develop a converged approach to offsetting financial assets and financial liabilities. Agreeing upon a common approach is critical if meaningful international comparisons are to be drawn, especially when considering banks and other financial sector entities.

Our thoughts on EFRAG's major comments

3. We agree with EFRAG that an overarching principle for offsetting financial assets and financial liabilities must be established. However, unlike EFRAG, we are not convinced that basing this principle on the existing guidance within IAS 32 will always provide users with the most relevant information about potential future cash flows, especially for instruments such as derivatives. In our view a principles based approach which results in a similar outcome to US GAAP would provide more relevant information about potential future cash flows for instruments such as derivatives than these proposals.

4. However, it is our understanding that the key point for users is that there is consistency in presentation between IFRS and US reporters and that, uniquely, this is more important than whether gross or net amounts are included in the statement of financial position. Normally we would not see international comparability as being the deciding factor but in this instance, which is simply a matter of balance sheet presentation, we believe that consistency should take priority.

5. Therefore, if after consulting their respective constituents both the IASB and the FASB are still supportive of the exposure draft, we would concur with taking these proposals forward, with some improvements, into the final standard. Nevertheless, as explained above, we are of the view that this does not provide the most useful information in the primary financial statements in all circumstances.

6. Like EFRAG, we are supportive of the enhanced disclosures requirements proposed but share your concerns that the proposals will require significantly more detailed information than is currently the case and that this may result in a disproportionate level of detail as compared with disclosure requirements in other areas.

RESPONSES TO SPECIFIC QUESTIONS RAISED BY EFRAG

EFRAG question 1
Do you believe that the benefits resulting from the proposals would outweigh the costs related to it? Please provide arguments to support your view specifying the benefits and costs considered.

7. In our view, the effort of making changes to IFRS would only be of benefit if doing so achieved consistent presentation with US GAAP. If no agreement can be ultimately reached between the IASB and the FASB, we see no reason to change existing practice and would therefore encourage the IASB to continue to use IAS 32 in its current form.

8. Consistency of presentation will bring considerable benefits to users of financial statements. However, the proposals do not come without their costs.

9. The proposals could impose a significant burden on banks and other financial sector institutions who hold large amounts of financial assets and financial liabilities and who often engage in transactions with counterparties or clearing houses that involve complex settlement and margining arrangements. In some cases offsetting may no longer be possible because the settlement cannot be demonstrated to be conducted at exactly the same time. Understanding each of these arrangements and whether they qualify for offsetting or not under the proposals may be both time consuming and expensive.

10. Therefore, where the proposals would change existing practice, we hope that the Boards will reconsider the wording of the final standard, particularly where the actual method of settlement introduces no additional risks. Doing so would significantly reduce the potential costs involved.

11. The biggest impact would no doubt be felt by US banks and other financial sector institutions for whom the proposals would bring significant change from current practice. The proposals would potentially have a significant impact on key metrics of such entities, especially gearing and leverage ratios. There could also be wider impacts on employee remuneration, debt covenants, regulatory capital requirements, taxation, audit costs etc. In addition, there may be costs involved in changing systems and processes to accomodate the proposed requirements.

EFRAG question 2
Please provide your estimate of how long your entity would reasonably require to implement the proposed disclosure requirements.

12. In our view it should be possible for IFRS preparers to adopt a revised standard with little lead time, given the limited nature of the change for them. However, US preparers may require additional lead time.

Please contact me should you wish to discuss any of the points raised in this letter or the attached draft response.

Yours sincerely

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