

Offsetting financial assets and financial liabilities

Amendments to IAS 32 and IFRS 7

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IN THE HEADLINES

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“ It is disappointing that the Boards have not been able to achieve convergence between IFRS and US GAAP offsetting requirements. However, users will benefit from greater consistency in the application of IFRS, while the required disclosures will provide greater comparability between IFRS and US GAAP reporters.”

– Andrew Vials, KPMG’s Global IFRS Financial Instruments Leader

The IASB and the FASB are no longer pursuing converged offsetting models

The International Accounting Standards Board and the US Financial Accounting Standards Board have decided to maintain their current offsetting models, and have issued common disclosure requirements. The IASB has built these new requirements into IFRS 7.

In addition, the IASB has published *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32). These Amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application.

You may see a change in the way you apply the offsetting criteria

The Amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

If you currently apply offsetting under rights of set-off that are not enforceable under the circumstances listed above, then the amounts offset may decrease.

Transactions through clearing houses may be affected

The amounts offset under settlement systems through clearing houses may be affected by the Amendments depending on whether:

- entities currently consider such systems as meeting the criterion to settle net or settle simultaneously; and
- the clearing house’s settlement system provides for net settlement, or gross settlement that is equivalent to net settlement.

Due to the current trend towards the use of central counterparties for more types of financial instruments, the impact of this change may become more significant over time.

New disclosure requirements

The Amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

Financial institutions are likely to be most affected

The Amendments are likely to affect the reporting of many transactions which are routinely conducted by financial institutions. These include derivative and other transactions with financial market counterparties and clearing houses.

Such transactions often include complex settlement and margining arrangements.

Energy traders, and energy companies with (financial assets and liabilities arising from) contracts to buy and sell energy, may also be affected, as may companies in the telecoms and airline industries that have significant receivables and payables with other entities in the same sector.

Regulatory capital requirements may be affected

Basel bank regulatory capital requirements for offsetting derivatives and repos are not affected by the Amendments.

However, financial institutions may be subject to additional national requirements, or requirements applying to non-banks. Whether these requirements are affected by the Amendments depends on the relevant regulatory rules.

Amounts of taxes may increase

Some jurisdictions have implemented or are considering imposing taxes or other levies on financial institutions based on assets or liabilities. Depending on how they are calculated, these may be impacted by the Amendments.

Management and employee remuneration may change

Bonus schemes and management remuneration may have targets based on returns on assets, or they may be based on reducing reported assets or leverage. If these measures are calculated from IFRS financial statements, they may be affected by the Amendments.

You may no longer be compliant with debt covenants

Debt agreements may impose limits on the amount of total debt or on the leverage or gearing of a borrower that are calculated based on IFRS amounts. The Amendments may increase the risk of breaching these covenants.

Retrospective transition will require you to prepare additional financial information

Companies are required to apply the Amendments to financial information in the current period and in each comparative period presented.

IFRS requires an entity to present as a minimum two statements of financial position, and to present a third statement of financial position if the impact of the Amendments is material.

Regulatory requirements in some jurisdictions may require some entities to present more than one year of comparative information or summary historical financial data.

You may need to start looking at your contracts now...

“ Companies may have to revisit contracts, and might require legal assistance. In some cases they may decide to amend the terms of contracts or change counterparties, so as to comply with the clarified offsetting criteria. ”

- Colin Martin, Head of UK Assurance Services, Banking

Basic facts

Although the offsetting project was a joint project between the IASB and the FASB, the Boards each decided to maintain their own current – and different – offsetting models.

The Amendments to IFRS 7 add disclosure requirements to IFRS 7.

The Amendments to IAS 32 clarify the offsetting criteria in IAS 32.

The effective date for the Amendments to IFRS 7 is annual periods beginning on or after 1 January 2013.

The effective date for the Amendments to IAS 32 is annual periods beginning on or after 1 January 2014.

Find out more

For more information on the Amendments please go to the IASB press releases on [IAS 32](#) and [IFRS 7](#), or speak to your usual KPMG contact.

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Timeline¹



¹ Assumes a 31 December annual reporting date