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Dear Kevin

EXPOSURE DRAFT OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES ED 209 AND ED 2011/1

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 209 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft ED 2011/11 and the Financial Accounting Standards Board (FASB) Exposure Draft *Offsetting Financial Assets and Financial Liabilities (Proposed Accounting Standards Update Balance Sheet Topic 210)* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International and Grant Thornton USA which are working on a global submission to the IASB, as well as discussions with key constituents.

In summary, our main views are as follows:

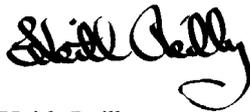
- we support the development of a converged approach to offsetting financial assets and liabilities by the IASB and the FASB
- we agree with the proposed offsetting criteria. We note these are consistent with those in IAS 32 *Financial Instruments: Presentation* (IAS 32), subject to a useful clarification that a set-off right must be unconditional
- we are concerned that the additional disclosure proposed on set-off rights and similar arrangements (which apply whether or not presentational offset is achieved) seem disproportionate.

We also note that the IASB has not indicated whether it will amend the existing requirements for non-publicly accountable entities, and on that basis we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures.

Grant Thornton does not believe that at this time amendments to the existing financial instruments standard should mandatorily apply to non-publicly accountable entities. Instead Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

If you require any further information or comment at this time, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

Appendix 1: Invitation to comment questions

Offsetting criteria: unconditional right and intention to settle net or simultaneously

- 1 The proposals would require an entity to offset a recognised financial asset and a recognised financial liability when the entity has an unconditional and legally enforceable right to set off the financial asset and financial liability and intends either:
 - a to settle the financial asset and financial liability on a net basis or
 - b to realise the financial asset and settle the financial liability simultaneously.

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

We agree. We note that the proposed criteria are consistent with those in IAS 32 *Financial Instruments: Presentation* (IAS 32), subject to the insertion of a specific requirement for the set-off right to be unconditional. We regard this insertion as a useful clarification rather than a substantive amendment.

Unconditional right of set-off must be enforceable in all circumstances

- 2 **It is proposed that financial assets and financial liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of set-off. The proposals specify that an unconditional and legally enforceable right of set-off is enforceable in all circumstances (i.e. it is enforceable in the normal course of business and on the default, insolvency or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?**

We agree. The proposal that a legal right of set-off must be enforceable in all circumstances to achieve accounting offset is consistent with our interpretation of IAS 32's existing requirements.

Multilateral set-off arrangements

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

We agree in principle. We are not however aware of common situations among our client base in which a multilateral right of set-off may be present.

Disclosures

- 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?**

We agree with the disclosure objective in paragraph 11 of the ED (that information should be disclosed that enables users to understand the financial effects of rights of set-off and related arrangements).

We question the appropriateness of the more detailed and prescriptive proposals in paragraphs 12 to 14. These paragraphs would require disclosure of information in excess of the current requirements of IFRS 7 on:

- the gross amounts of assets and liabilities that are offset in the statement of financial position in accordance with the proposals;
- the gross amounts of assets and liabilities where set-off rights exist but accounting offset is not achieved (inter alia).

We acknowledge that the Boards' outreach has showed that users support robust disclosures in this area. We agree that the information on set-off and similar arrangements can provide useful insights on entities' credit risk management practices and exposures.

We note however that the ED's proposals on presentation are intended to require offset only when the entity in effect has a single net exposure or right (as explained in BC 17). If in substance an entity has a net exposure or right we question the practical usefulness and relevance of detailed gross information.

We consider that the existing principles and requirements of IFRS 7 should be sufficient to provide insights into how entities use set-off rights and similar arrangements to mitigate credit risk.

Effective date and transition

- a Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?**

- b Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.**

We agree that the amendment should be applied retrospectively.

For an existing IFRS preparer, we think the reasonable length of time necessary to implement the presentation requirements will be relatively short. Nonetheless, assuming the final amendment is issued in 2011, we suggest the effective date should be no sooner than annual periods commencing on or after 1 January 2013. An entity with a calendar year-end that adopts the changes in its 31 December 2013 financial statements would then present comparative information at 31 December 2011 and 2012, the earlier date being after the publication of the final amendment.

We think that the proposed disclosure requirements could increase the necessary implementation time for entities that use set-off and similar arrangements extensively. If the disclosure proposals are retained we suggest the Boards may need to either defer the effective date or provide relief from disclosure of comparative information.

AASB Questions (for all entities)

1 Whether, overall, the proposals would result in financial statements that would be useful to users.

Apart from our earlier comments, we are not aware of any issues that may impact users. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users.

2 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a not-for-profit entities; and**
- b public sector entities;**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals for publicly accountable entities. We believe that there are regulatory and other issues arising in the Australian environment for non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

3 Whether there are any implications for GAAP/GFS harmonization.

Apart from our earlier comments, we support the implementation of the proposals for publicly accountable entities.

4 Whether the proposals are in the best interests of the Australian and New Zealand economies.

Apart from our earlier comments, we are not aware of any reasons that would impact on the interests of the Australian economy for publicly accountable entities. Our New Zealand firm may wish to comment direct to the AASB if there are any New Zealand implications. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users nor are they in the best interests of the Australian economy.

- 5 Unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

We have no additional comments to make.

- 6 Whether the proposed disclosures (paragraphs 11 – 15 and C16 – C20) in this Exposure Draft should also be applied to Tier 2 entities. The AASB proposes to exempt Tier 2 entities from providing any of the proposed disclosures**

We reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users.