Norsk RegnskapsStiftelse

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, April 28, 2011

Dear Sir/Madam

Exposure Draft, ED/2011/1 Offsetting Financial Assets and Financial Liabilities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the exposure draft Offsetting Financial Assets and Financial Liabilities.

We are pleased with the efforts to address differences in offsetting requirements for financial instruments between IFRSs and US GAAP, and support the proposal to retain the principles in IAS 32 (under IFRS) for offsetting financial assets and financial liabilities in the statement of financial position.

We agree with the clarification that the right to set off should be unconditional and legally enforceable in all circumstances, and concur with the arguments presented in the basis for conclusion. We understand the wording in paragraph 9 to require separate presentation of cash collateral advanced against financial instruments in all circumstances (including derivative contracts). We support this conclusion and the reasoning provided in BC62 and BC 63.

We also support the proposed disclosure requirements. However, we encourage the IASB to consider the proposals in the ED in the context of existing quantitative disclosure requirement in IFRS 7 on credit risk, to avoid a potential duplication of disclosures, and to further clarify their content (see our reply to Q.4).

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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Question 1—Offsetting criteria: unconditional right and intention to settle net or simultaneously

The proposals would require an entity to offset a recognised financial asset and a recognised financial liability when the entity has an unconditional and legally enforceable right to set off the financial asset and financial liability and intends either:

(a) to settle the financial asset and financial liability on a net basis or

(b) to realise the financial asset and settle the financial liability simultaneously.

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

We support the proposed criteria's for offsetting financial assets and financial liabilities in the statement of financial position.

Question 2—Unconditional right of set-off must be enforceable in all circumstances

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

We agree with the clarification that the right to set off should be unconditional and legally enforceable in all circumstances.

Question 3—Multilateral set-off arrangements

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

We agree.

Question 4—Disclosures

Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements, and why?

We support the proposed disclosure requirements and the Boards effort to provide disclosures that respond to financial statement users request for information about net credit risk exposures. However, we encourage the IASB to clarify the scope and the objective of the disclosure requirements in particular with regards to the following.

- First, we encourage the IASB to determine how the proposed disclosure requirements will interact with existing quantitative disclosure requirements about credit risk in IFRS 7, and to consider combining some of these disclosures to avoid potential duplication of disclosures.

- Clarify whether collateral (paragraph 12(f)) that is held, but not recognised, should be included in the proposed tabular disclosures.

- Clarify whether the “collateralised borrowing” under repurchase arrangements (“failed sale”) should be disclosed in the tabular disclosure proposed by paragraph 12.

- Clarify whether the existence of financial guarantees also should be included in the disclosures to provide a complete picture of the entity’s credit exposure.

Furthermore, we question (a) the usefulness of requiring separate columnar disclosure of the portfolio-level credit adjustment for each class of financial asset and financial liability and (b) why this term (portfolio-level adjustment) is introduced in a disclosure requirement and not a measurement standard. If this disclosure requirement is retained in the final standard, the IASB should clarify the rationale for this requirement.

Question 5—Effective date and transition

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

We agree with retrospective application for all comparative periods presented.

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

No comment.