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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the Exposure Draft *Offsetting Financial Assets and Financial Liabilities* (ED/2011/1). Principal authors of this comment letter were Peter Bitzyk, David Grünberger, Andreas Gilly, Christian Höllerschmid, Heiner Klein, Andreas Rauter, Ernst Schönhuber and Roland Nessmann. The professional background of these authors is heterogenous (preparers, academics, and audit companies) in order to assure a balanced Austrian view of the ED.

GENERAL REMARKS

In general, we strongly encourage the IASB to stick to principle based rules whenever possible, and also to bring similar information together in one place in the financial statements.

In this connection, many disclosures proposed in the ED mainly concern risk reporting under IFRS 7, especially in relation to market risk and credit risk. These should be disclosed under IFRS 7.31ff by being added to the disclosures already required.

It is very burdensome and probably misleading if risk-related information is presented in a fragmented way dispersed throughout the report. Furthermore, risk information cannot simply be aggregated as its nature changes with size (e.g., risk concentrations or VaR information cannot be collected from different parts of the report and summed up). The proposed disclosures on netting arrangements relate to gross/net credit exposures (IFRS 7.36(a)), credit enhancements (IFRS 7.36(b)), collateral (IFRS 7.14-15) open market risk positions (IFRS 7.B17ff) and contractual liquidity risk exposures (IFRS 7.39). They should be integrated into risk reporting.

The reason is that only an overall picture of all risk features together in one place in the financial statements or risk report can fulfil the goal of IFRS 7.31.

Additionally, some of the proposed disclosure requirements, e.g., under paragraph 10(f), do not seem to be principle based: Where the intent of this requirement is to avoid settlement risk arising from an open position because of the time-lag between the realisation of the asset and settlement of the liability, this should be stated in a more general way. A requirement such as “executed at the same moment” could be abused by sticking to the words, while substantial settlement risk could still remain economically.

SPECIFIC REMARKS

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 assets and the financial liability on a net basis or (b) to realise the financial assets 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.

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.

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 do not agree with the proposed disclosure requirements for the following reasons:

- The ED, like the current rules, permits offsetting only when there is an unconditional and legally enforceable right and the intent to settle on a net basis or simultaneously to realise assets and settle liabilities. In our view, therefore there is very little additional value in disclosing how reports were affected when neither an enforceable right of setoff existed nor was there intent on the part of the entity to settle on a net basis. Such information would inflate disclosures when no risks were associated with them, and the entity would disclose such information in any event if significant risks remained for the purposes of IFRS 7.33.
- Many of the proposed disclosures, especially those in paragraph 12, should be seen as additional disclosures of risks from financial instruments, and thus should be added to the risk disclosures in IFRS 7, if really of additional value (some of the figures are already required disclosures there, e.g., collateral pledged)
- Paragraph 12(b)(ii): portfolio level adjustments made to fair value to reflect the effect of the entity's net exposure to the credit risk of the counterparties or the counterparties' net exposure to the credit risk of the entity. These adjustments are only dealt with in the comprehensive project summary "Developing common fair value measurement and disclosure requirements" in the joint Fair Value Measurement Project of IASB und FASB, but no final decisions are publicly available yet.

The proposed methods of disclosure do not satisfy cost/benefit criteria: they bring very limited additional added value at a high cost to enterprises.

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?

As there is no big change to the rules already existing in IFRS we suggest prospective application of the proposed standard under IFRS. This might be different for entities following US-GAAP.

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

We think that it would require around two years to implement the new rules on a groupwide basis.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl

Chairman