

PRESS RELEASE

28 January 2011

IASB and FASB propose to align balance sheet netting requirements **- Differences in IFRS and US GAAP offsetting requirements to be eliminated –**

The International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB) have published a proposal to establish a common approach to offsetting financial assets and financial liabilities on the statement of financial position (balance sheet).

Offsetting, otherwise known as netting, takes place when entities present their rights and obligations to each other as a net amount in their statement of financial position.

At present, the circumstances when financial assets and financial liabilities may be presented in an entity's statement of financial position as a single net amount, or as two gross amounts, differs depending on whether the entity reports using International Financial Reporting Standards (IFRSs) or US generally accepted accounting principles (GAAP).

The accounting differences result in the single largest quantitative difference in reported numbers in statements of financial position prepared in accordance with IFRSs or US GAAP. This reduces the comparability of financial statements, and is especially prominent in the presentation of derivative assets and derivative liabilities by financial institutions. As a result, users and preparers of financial statements have asked the boards to find a common solution for offsetting those items. Proposing a common solution is also consistent with requests from the G20 and the Financial Stability Board (FSB).

The boards are proposing that offsetting should apply only when the right of set-off is enforceable at all times, including in default and bankruptcy, and the ability to exercise this right is unconditional, that is, it does not depend on a future event. The entities involved must intend to settle the amounts due with a single payment or simultaneously. Provided all of these requirements are met, offsetting would be required. The proposals would amend IFRSs and US GAAP and eliminate several industry-specific netting practices.

Sir David Tweedie, Chairman of the IASB, commented:

The fact that companies can, in some instances, report IFRS balance sheet figures that are double the size of their US GAAP numbers is not acceptable in global capital markets. Investors, and the FSB, G20 and others, have all called upon the IASB and the FASB to resolve this problem. The proposals would eliminate the differences in offsetting requirements.

Leslie Seidman, Chairman of the FASB, said:

This proposal would eliminate a major difference in reporting relating to financial instruments under US GAAP and IFRSs. Investors expressed a desire for information about both the gross amounts of financial assets and liabilities and the net amounts, if credit risk has been mitigated.

This proposal would change US GAAP to require netting in a narrower set of circumstances, but the effect of other forms of credit mitigation would be disclosed in the footnotes.

The exposure draft *Offsetting Financial Assets and Financial Liabilities [FASB: Balance Sheet (Topic 210): Offsetting]* is open for public comment until 28 April 2011 and can be accessed via the IASB and FASB websites. During the consultation period, the IASB and the FASB will undertake further outreach to seek views on the proposals.

An interactive webcast by the IASB on the proposals will be held at 10am (UK time) on 31 January, and repeated at 3pm (UK time) on the same day. To register, please [click here](#).

A summary of the proposals (IASB Snapshot) is available, please [click here](#).

A “FASB in Focus” document offering an additional overview will be posted on the FASB website.

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Notes to editors:

The exposure draft proposes requirements that will, if adopted, replace the offsetting requirements in IAS 32 *Financial Instruments: Presentation*.

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Notes to editors

About the IASB

The IASB was established in 2001 and is the standard-setting body of the IFRS Foundation, an independent, private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. The IASB has 15 full-time members drawn from 11 countries and a variety of professional backgrounds. By 2012 the Board will be expanded to 16 members. Board members are appointed by and accountable to the Trustees of the IFRS Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience. In their work the Trustees are accountable to a Monitoring Board of public authorities.

About the Financial Accounting Standards Board

Since 1973, the US Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information. For more information about the FASB, visit its Website at www.fasb.org.